

LAND CREDIT IN THE UNITED STATES.

by

ALEXANDER K. RADER.

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Approved: Geo. E. Putnam

Date

Department of

Economics

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Arthur H. Boynton.
Chairman.

AGRICULTURAL CREDIT IN THE UNITED STATES.

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CHAPTER I.

Land Credit in the United States.

The Land Credit Situation.

Cheap money for farmers has always proved a popular question for agitators. It has never lacked supporters and ardent champions. In the past, the agitation for cheap money has been so frequent and the plans proposed so inexpedient that, to-day, any plan which proposes to provide the farmer with cheap money is regarded as unsound and looked upon with discredit not only by men in the financial world but by the farmer himself.

Recent years, however, have witnessed developments in agriculture which have made the question of better financial methods a real one. The present generation is witnessing a material transformation in methods of agriculture. The old "cut and cover" methods of mining the soil have given way to new and more scientific methods. In the past agriculture was more or less of a gamble --

the farmer against the land and nature. The farmer attempted to wring from the land all that he could and give nothing in return. Circumstances in fact made this the only profitable sort of agriculture. Land was "dirt cheap", given to him by the government; labor was high; capital was scarce; interest rates were almost prohibitive to the majority of the farmers. There was but one thing for the farmer to do, and that was to forgo the use of capital and mine his soil.

Developments of the last generation have made it impossible for the farmer to continue to forgo the use of capital. The free lands are gone; land values have advanced until at present it is almost impossible for the young man who has only his hands to work with to become a land owner. The farmer is forced to adopt new and improved methods of agriculture because his land is too valuable to mine. Increased use of machinery, increase of stock on the farm, increase in expenditures for fertilizer, feed, and labor, and a higher standard of living have made necessary an ever increasing outlay of capital.

During the period from 1900 to 1910 the

average price of farm land advanced from \$15.57 to
I.
\$32.40 an acre, a rise of 108 percent. During the
same period the value of farm implements and machines
per acre of land in farms increased from \$0.89 to
\$1.44, a rise of 61.8 percent; the value of build-
ings increased 77.8 per cent; expenditures for
labor increased 82.3 per cent; fertilizer increased
2.
115 per cent. The value of stock for the decade
3.
ending 1910 increased 60.1 per cent. Taken for
longer periods of time these developments would
show a still more striking rate of increase.

Not-with-standing the fact that the needs
of agriculture have constantly increased, the
facilities for financing agriculture have remained
practically stationary. Agriculture has not kept
pace with the unprecedented development of indust-
ries in other fields. The improved means of financ-
ing business enterprise, corporate ownership,
standardization and mobilization of business credits
in the form of stocks and bonds, the organization
of exchange markets, banking houses and trust com-
panies for dealing in securities, have made possible

1. Thirteenth United States Census, Vol. 5, Farms and
Farm Property. P. 80.

2. do P. 43, table 8.

3. do P. 84, table 32.

the accumulation of large amounts of capital at low rates of interest, for long periods of time, and on easy terms of repayment, with which to finance large enterprises. Agriculture does not readily lend itself to these new and improved methods and means of financing. In fact the farmer in the business world is sort of ~~an~~ anomaly. Our commercial and financial institutions which have been designed to meet the needs of the manufacturing and commercial classes have proved inadequate and even prejudicial to the best interest and development of agriculture.

It is largely to meet these inadequacies in our financial system that the demands for cheap money have been made. To-day the question has become more acute than ever. It has grown to such importance as to find expression in political platforms, congressional committees, and state and Federal legislative acts. It has enlisted the support of considerable number of men in various lines of activity. As yet, however, there is no consensus of opinion as to the program best adapted to supply the farmers needs. One group of credit enthusiasts would have the Federal or the state governments enter into the business of providing the farmer with artificially cheap money; another group

would have the Federal or state governments work out the machinery for improving the credit system; others would have the farmer work out his own salvation through cooperative credit institutions; while still others think that the whole problem should be left to private initiative, the action of the government being confined to that of repealing obnoxious laws which are prejudicial to the organization of private companies. Still others hold that the farmers salvation lies in adopting better business methods.

The strongest supporters and the bitterest enemies of each of these programs are found among the various groups of rural credit enthusiasts. Each group is heartless in condemning all others as ill-adapted, inexpedient, or absolutely dangerous to the interests of the farmer. The explanation of this disagreement as to the proper solution lies largely in the fact that each group is looking at a different phase of the credit problem.

The rural credit problem in the United States involves several problems. First, there is the problem of making short term loans to all classes of farmers for the purpose of providing working capital to meet expenditures for feed, labor,

fertilizer, machinery, and other equipment which cannot be met out of the proceeds of one or two successive years; the usual length of such loans being from six to twelve months.

The second problem is that of providing long term credit to the farmer for the purpose of providing capital with which to pay the purchase price of land, to meet expenditures for improvements, such as buildings, fences, drains, and the more expensive equipment such as stock and machinery.

The chief sources of short term credit are the banks and the merchants. The relative importance of these two sources varies with different sections of the country. In the North, where the farmers as a class are prosperous and reliable and where banking institutions are well developed, banking credit is given much more freely than it is in the South where the opposite conditions prevail. As a rule, however, the farmers short time loans run for longer periods of time than commercial banks care to make. Banks prefer to keep their funds as liquid as possible; thirty, sixty and ninety day paper being the most desirable forms. The farmers loan must run for at least six months and more often a year. It is consequently necessary in many cases for the farmer to

upon the merchant for credit. It is a common practice for farmers to run up book accounts with the merchant during the spring and summer to be paid after harvest. This is a very expensive form of credit. The farmer pays interest in the form of a higher price for his goods. In the South the system is carried to the extreme in the store lien system. "The custom," says Professor Kemmerer, "is for the farmer to buy supplies of the general store on credit for all the year, agreeing to sell to the merchant his cotton in the fall, thereby cancelling the debt. A crop lien is generally given and the merchant often dictates the character and the amount of the planting. The prices paid for cotton under this system are liable to be exceptionally low and his supplies exceptionally high. The system has proved a curse to many sections of the South." ^{1.} Witnesses before the United States Industrial Commission estimated the interest ^{2.} rates imposed by this system at from 20 to 40 percent.

1. E. W. Kemmerer, Agriculture Credit in the United States. Amc.Econ.Rev. Vol. 2, No.4. Dec. 1912.

2. U.S. Industrial Commission Report X p. 161.

Long term credits on the other hand are needed for much longer periods of time than are short term credits; the usual length for long term loans being from five to forty years. The sources of long term credits are likewise different. The chief sources of long term credits must be investment institutions such as life insurance companies, state banks, and trust companies.

From the above brief survey it is evident that these two problems must be treated separately and distinctly. A single system cannot be devised which will solve both. They are essentially different as regards: (1.) the source of credit funds, (2). the length of time for which loans may run, (3). the object or purpose to which the funds obtained may be applied, (4). the security available as a basis for the loans. The first problem has to do with the furnishing the farmer with investment funds.

It shall be the purpose of this paper to consider only the latter of these problems, the problem of furnishing the farmer with long time or investment funds. As a foundation for the discussion of this problem it will be necessary to consider; first, the existing institutions at the disposal of the farmer for making long term loans or the sources of long term credit; second,

commission charges and interest rates paid by the farmer; third, the methods of making loans to farmers; fourth, the defects in our present state laws with regard to registration and recording of titles, taxation and mortgages, exemptions and redemptions.

Sources of Mortgage Loans.

The chief sources of long term or mortgage credit are: the individual lender, the insurance companies, the banks, the states, mortgage and trust companies, and the building and loan associations.

No statistics are available as to the amount of mortgage indebtedness due to individual lenders. It is no doubt considerable. The individual lender has the advantage of the outside lender in that by personal supervision he can minimize risks and avoid middlemen's commissions. This source of credit, however, is by its very nature limited to a local field.

The insurance companies are the most important single source of farm mortgage loans. Investigations made by the Department of Agriculture¹ show that in 1915, 220 of the leading fire insurance companies had outstanding loans to the amount of \$693,940,000 — about one fifth of the total mortgage indebtedness of the United States, which is

1. U.S. Department of Agriculture, Bulletin No. 384, page 9, July 31, 1916.

estimated at \$3,598,985,000.

Farm mortgages, as investments for life insurance companies, have been steadily gaining in favor in the last few years. However, they still lack prestige that they once held.^{2.} Mr. Dawson says: "Real estate mortgages were once preferred by all American life insurance companies. When carefully selected they should cause a loss of interest but seldom, of part of the principal yet less frequently, and of all the principal never. While a very large part of the investments of some companies is yet in real estate mortgages and some part of the investments of all, they no longer occupy first place. Several things have contributed to this result. The land booms in some parts of the country did a great deal to discredit real estate investments of all kinds. The slump in land values in some of our large cities in 1893 and the next year or so following was not without its effect likewise; the gradual reduction of returns upon real estate mortgages of the choicest character has played a part."

"The chief cause of the changed attitude of the life insurance companies, however, is believed to be the great increase of their funds and their failure to organize their investment departments

with the same thoroughness as their agency departments, for instance. Most of the companies relied upon the ordinary local real estate agent to offer mortgages and so suffered with other lenders, the agent could profit only by securing loans for his customers and so had an interest in getting them if possible. The managers of life insurance companies, as the burden of caring for the investments became heavier, instead of systematising the work and extending the system, drew in their lines and adopted a system of concentrated responsibility which called for larger loans than the average loan that was offered. The result was that loans for less amounts, especially in smaller cities, villages, and the open country, were neglected, and, while the interest realized by the principal companies was tending downward toward 4%, in many parts of the country, East and West, the money famine, as to small loans on real estate, was such that from 6% to 8% or more could be had on security quite as good in point of fact as that behind the best bonds."

The significance of the relative decline of land mortgages as compared with other securities must not be overlooked. It points to a material defect in our land credit system, namely, the non-

standardization of land values. Carefully selected mortgages, as has been pointed out, offer better security, higher rates of interest for long time loans than most any other form of security. The defect lies in the fact that farm land securities are not standardized. Insurance companies have not had the organization to investigate land values in the various sections of the country. They cannot afford to make small loans to farmers. They prefer to forgo higher interest rates and perhaps better security for the more standardized securities such as bonds. As a result we find insurance companies limiting their operations to sections of the country where agricultural conditions are sufficiently well established to furnish adequate security for a fairly large loan. The newer sections of the country and the small farmer are consequently cut off from an important source of credit.

Tables 1 and 2, following, show the relative importance of life insurance companies as a source of mortgage credit in the various sections of the United States.

In Table 1. it will be noticed that the life insurance companies hold nearly one-fifth of the mortgage indebtedness of the United States. Also, they hold but little less than do the banks.

It will be noted, also, in Tables 1 and 2, that the bulk of the mortgages held by life insurance companies are on lands in well developed agricultural regions. Practically one-half of the insurance money is invested in the four states of Iowa, Kansas, Missouri, and Nebraska. Iowa, alone, holds nearly 22 percent of the total amount of insurance money. Life insurance companies, as a source of mortgage credit in the South and West, are practically a negligible factor.

Table 1, showing by Geographical Divisions,
the Total Estimated Farm Mortgage Indebtedness of
the United States, and the Amounts of the Same Held
or Handled by Insurance Companies or Banks. 5.

Geographic Division	Estimated total farm mortgage debt. 4.	Farm mortgages held by life in- surance companies. 1.		Farm mortgages held by banks. 2.		Farm mortgages handl- ed by banks. 3.
		Amount	Percent of esti- mated total.	Amount	Percent of esti- mated total	
United States	3,598,985	693,940	19.3	739,500	20.6	486,580
New England	80,544	106	.1	84,900	105.4	10
Middle Atlantic	313,150	556	.2	30,900	9.9	2,040
East N. Central	944,436	121,075	12.8	220,000	23.3	123,360
West N. Central	1,375,903	426,960	31.0	216,400	15.7	282,710
South Atlantic	153,155	22,930	15.0	40,800	26.6	19,920
East S. Central	127,135	22,871	18.0	33,600	26.4	4,710
West S. Central	299,614	72,685	24.3	27,900	9.3	18,750
Mountain	101,285	12,535	12.4	19,800	19.5	17,300
Pacific	203,757	14,225	7.0	65,200	32.0	17,780

1. Based on reports received (in Oct., 1915) from 220 life insurance companies comprising five-sixths of the total number in the United States and having more than 99% of the total admitted assets.

2. Estimate based upon reports of banks in the spring of 1914.

3. Farm mortgages negotiated by banks or bank officials as agents of other investors. Estimates based upon reports received from banks in spring of 1914.

4. Estimates based on Thirteenth Census figures, assuming that the ratio between the mortgage debt on farms operated by their owners and the total value of all such farms holds good for tenant farms also. It is possible that this ratio may be too high for tenant farms in some states, in which case the estimates will be too large, but even if this is the case, the figures presented have considerable value as representing the maximum amount of farm mortgages outstanding in the census year.

5. U.S. Department of Agriculture, BULLETIN No. 384, July, 31, 1916.

Table 2. Showing the Amount of Farm Mortgages Held by Life Insurance Companies. 1.

<u>State</u>	<u>Amount</u>
Iowa - - - - -	150,150,000
Nebraska - - - - -	66,614,000
Kansas - - - - -	64,473,000
Missouri - - - - -	59,699,000
Illinois - - - - -	51,046,000
Indiana - - - - -	48,789,000
Texas - - - - -	37,861,000
Minnesota - - - - -	35,577,000
South Dakota - - - - -	31,024,000
Oklahoma - - - - -	29,065,000
North Dakota - - - - -	19,423,000
Ohio - - - - -	17,073,000
Georgia- - - - -	15,479,000
Tennessee - - - - -	10,674,000
California - - - - -	10,047,000
Kentucky - - - - -	7,170,000
Arkansas - - - - -	4,259,000
South Carolina - - - - -	3,884,000
Montana- - - - -	3,518,000
Mississippi - - - - -	3,256,000
Colorado - - - - -	3,135,000
Washington - - - - -	3,087,000
Idaho- - - - -	2,948,000
North Carolina - - - - -	2,267,000
Alabama, - - - - -	1,771,000
Michigan - - - - -	1,706,000
Louisiana- - - - -	1,500,000
New Mexico - - - - -	1,191,000
Oregon- - - - -	1,091,000
Utah - - - - -	862,000
Virginia - - - - -	670,000
Maryland - - - - -	492,000
Arizona- - - - -	376,000
New Jersey - - - - -	222,000
Pennsylvania - - - - -	206,000
New York - - - - -	128,000
Delaware - - - - -	46,000
Maine - - - - -	15,000
Nevada - - - - -	15,000
Vermont- - - - -	13,000
Massachusetts- - - - -	-
Connecticut- - - - -	-
New Hampshire- - - - -	-
Total, United States	693,940,000

- Figures taken from United States Department of Agriculture Bulletin No.384, July 31, 1916, page 10. Based upon reports received from 220 insurance companies, comprising 99% of total admitted assets of companies in United States.

The third important source of credit to the farmer is the banks. Section 24 of the Federal Reserve Act provides that any national bank not situated in a Central Reserve City may make loans on improved farm land not to exceed 50% of the actual value of the property offered as security and for a period of not exceeding five years. The banks may make such loans in an aggregate sum equal to 25% of its capital and surplus and to 33% of its time deposits. It was not until after the passage of this act that national banks were permitted to loan on real estate, although it was not and is not now an uncommon practice to loan on personal notes secured by real estate.

As yet these newly authorized loans have not become important nor are they likely to. It is not the function of commercial banks to make loans on real estate. "The primary function of commercial banks is to make possible the employment of capital temporarily out of use."¹ The national banks are not primarily investment institutions; they deal in commercial funds as distinguished from investment funds. National banks do and most banks should keep their funds in forms easily liquidated.

1. J.E. Pope, Agricultural Credit In the United States.
Q.J.E. Aug. 1914. page 714.

State and savings banks do a considerable amount of farm loan business. Table 1 shows that the banks hold farm mortgages to the amount of \$739,500,000 about 20,6 per cent of the estimated total farm mortgage debt of the United States.

An idea of the relative importance of the different forms of banking institutions as a source of mortgage credit may be obtained from the following table.

Table 3.

Amount of Loans Outstanding June 30, 1914,
In All United States Reporting Banks Secured By Farm
Mortgages. 1.

14,512 State Banks - - - - -	\$258,700,000
634 Mutual Savings Banks- -	88,100,000
1,466 Stock Savings Banks - -	81,700,000
1,064 Private Banks - - - - -	16,900,000
1,564 Loan and Trust Companies	96,700,000
7,525 National Banks - - - - -	- - - - -

Total (26,765 Banks) - - \$542,100,000

1. Report of the Comptroller of the Currency,
June 30, 1914.

The services of the banks as a source of mortgage credit are not to be measured entirely by the amount of mortgage loans held by them. Their services are much larger. The banks are an important factor in that they do a considerable business as the agents of correspondents of other investment institutions and of private investors. The department of Agriculture, Table 1., estimates the total amount of loans handled by the banks at \$486,500,000. Adding this amount to the amount actually held by the banks gives \$1,226,000, 000 -- a little more than one-third of the total mortgage indebtedness of the United States.

The investments of the banks in mortgages are more widely distributed than are the investments of life insurance companies. The banks are scattered over the country and are consequently in a better position to investigate properties offered for security and can afford to make smaller loans than can the insurance companies. Not-with-standing this advantage, however, reference to Table 1 will show that the bulk of the loans made by banks are confined to two sections of the United States, the East North Central and the West North Central sections.

In recent years the mortgage companies have become important factors in supplying farm credit. They make large number of loans either

directly from their own funds or as agents of investors. The large companies generally occupy the position of underwriters. On the farmers application for a loan the company appraises the land offered as security and makes the loan out of its own resources. The company may then either sell the mortgage to an investor or retain the mortgage and issue serial bonds against it.

The actions of the states in making loans to farmers have in the past been limited to the making of loans to farmers from school funds. For a number of years Idaho, Indiana, Iowa, North Dakota, South Dakota, Oklahoma, and Utah have made such loans.^{1.} Up to the present time these loans have but slightly influenced the mortgage situation. More recently, however, a few states, Missouri, Montana, and Oklahoma have undertaken comprehensive plans for making loans to farmers. Further consideration will be given these plans, later.

The last important source of mortgage credit is the building and loan associations. The associations have made amazing development in many of our large cities in the last few years. In some states they are partially fulfilling the function left vacant by the life insurance companies -- the function of

1. George E. Putnam. Agriculture Credit and the Tenancy Problem. Amc.Econ.Review, Dec. 1915, page 805.

making loans to the smaller farmers. In Ohio where the building and loan associations have made the greatest headway, these associations had outstanding in 1913 farm mortgage loans to the amount of \$15,223,173,^{2.} as against \$25,455,663 mortgage loans held by state and private banks. The total farm mortgage indebtedness of Ohio is estimated at \$108,000.^{3.} In the future the building and loan associations are likely to play an increasingly important part in the farm loan business. As yet, however, they have confined their operations largely to the cities.

Interest Rates.

An important problem to be considered in connection with the credit question is that of the interest rates. Current literature is replete with wild estimations and gross mistatements concerning the so called usurious interest rates imposed upon farmers of the United States, and also between the rates paid by our great corporations whose credit is second only to that of the government itself, with that paid by the poorest class of farmers. Such comparisons are manifestly absurd.

2. O.C.Lockhart. Farm Loans in Ohio. Amc.Econ.Review, Dec. 1914, page 962.

3. O.C.Lockhart. Farm Loans in Ohio. Amc.Econ.Review, Dec. 1914, page 963.

What is the interest rate usually paid by the farmer in the United States? Is it more than he can bear? Is it usurious? Is it higher than that paid by men in other lines of business? Though these are vital questions at the bottom of the credit problem they are not easily answered. The varying financial conditions in the various sections of the United States together with the varying degrees of security offered by the industrial borrowers, give rise to a wide range of interest rates. Until recently no reliable data was available on this subject. Lately, however, investigations have been made by the Department of Agriculture at Washington, as well as by individual investigators.

The most complete set of data is that collected by the Department of Agriculture concerning the interest rates and commissions charged by banks and insurance companies on farm loans. The data, drawn largely from the reports received from banks and insurance companies in 1914 and 1915, is presented in the following table.

Table 4., Showing the Average Interest and Commission Charges and the Average Term for Farm Mortgage Loans in the United States. 1.

Farm Mortgage Loans.				
Geographic Div- isions and States.	Average Int- erest rate	Av.annual Comm.	Int.Rate plus comm.	Av.term of years.
New England.				
Maine	6.1	0.1	6.2	4.0
New Hampshire	5.3	(2).	5.3	7.0
Vermont	5.6	(2).	5.6	4.9
Massachusetts	5.6	(2).	5.6	4.1
Rhode Island	5.7	0.2	5.9	3.2
Connecticut	5.7	(2)	5.7	1.7
Middle Atlantic				
New York	5.5	0.1	5.6	5.7
New Jersey	5.5	0.3	5.8	2.7
Pennsylvania	5.5	0.3	5.8	3.9
East N. Central				
Ohio	5.9	0.2	6.1	4.0
Indiana	5.8	0.4	6.2	4.9
Illinois	5.7	0.3	6.0	4.9
Michigan	6.3	0.3	6.6	4.9
Wisconsin	5.7	0.1	5.8	4.9
West N. Central				
Minnesota	6.3	0.5	6.8	5.1
Iowa	5.6	0.3	5.9	5.1
Missouri	6.2	0.6	6.8	4.7
North Dakota	6.9	1.8	8.7	5.0
South Dakota	7.0	1.0	8.0	4.8
Nebraska	6.3	0.8	7.1	4.9
Kansas	6.1	0.8	6.9	5.1
South Atlantic				
Delaware	5.6	(2)	5.6	4.6
Maryland	5.7	0.4	6.1	3.3
Virginia	6.1	0.7	6.8	3.3
West Virginia	6.2	0.2	6.4	2.4
North Carolina	6.3	1.4	7.7	2.5
South Carolina	7.8	0.6	8.4	2.9
Georgia	7.6	1.1	8.7	4.3
Florida	9.0	0.6	9.6	1.8

1. U. S. Department of Agriculture Bulletin No 384.

July 31, 1916. Page 2.

2. Less than one-tenth of one per cent.

Table 4. Continued.

Farm Mortgage Loans.				
Geographic Div- isions and States.	Average Int- erest Rate..	Av. annual comm	Int. rate plus comm.	Av. term of years.
East S. Central				
Kentucky	6.7	0.4	7.1	2.6
Tennessee	7.3	0.6	7.9	3.3
Alabama	8.7	0.7	9.4	2.8
Mississippi	8.0	0.5	8.5	2.7
West S. Central				
Arkansas	9.0	0.6	9.6	3.5
Louisiana	8.2	0.4	8.6	3.1
Oklahoma	6.6	1.8	8.4	5.4
Texas	8.4	0.6	9.0	4.6
Mountain				
Montana	8.4	1.6	1.0	4.8
Idaho	8.2	0.7	8.9	4.9
Wyoming	9.2	0.8	10.0	3.5
Colorado	8.2	0.6	8.9	4.1
New Mexico	9.7	0.8	10.5	3.2
Arizona	9.1	0.3	9.4	2.4
Utah	8.6	0.4	9.0	5.0
Pacific				
Washington	7.9	0.8	8.7	4.3
Oregon	7.7	0.3	8.0	3.2
California	7.4	0.2	7.6	3.2

The data presented in the above table may be considered as a conservative estimate of the general trend of interest rates throughout the country. The general interest rates charged throughout the United States will probably run somewhat higher than those charged by banks and insurance companies. Banks and insurance companies, as a rule, make loans only on high grade security. The farmer whose security is not of the highest class often has to depend upon other sources for credit and consequently has to pay a higher rate than that charged by either the banks or the insurance companies.

The important thing to be noticed in Table 4 is the wide range of interest rates paid by the farmers in the different sections of the country -- the low rates in New England, the Middle Atlantic, and the East North Central states as compared with the high rates paid in the South Atlantic, the East South Central, the West South Central, the Mountain, and the Pacific States. It will be noticed that the rates on these loans vary from 5.3 per cent in New Hampshire to nearly double that amount in New Mexico. It is to be further noticed that the commission charges, varying from 0.1 percent to 1.8 as an important item in determining the higher rates in the South and West.

The above figures though on the whole rather conservative may be considered fairly accurate. They compare quite favorably with the results obtained by private investigations in certain sections of the country.

Professor Putnam of the University of Kansas in 1914 made an investigation of the rural credit situation in the state of Kansas. As a result of that investigation Professor Putnam drew the following conclusions with regard to long term loans in that
1.
State.

"The rate of interest on Mortgage loans varies from 6 to 10 per cent. From the Northern to southern counties there is a gradual rise of from one-half to one per cent. Likewise, from the eastern to the western tier of counties there is an increase of approximately 4 per cent. The highest reported by western bankers is 10 per cent, but, on account of the heavy expense incident to the granting of a loan together with the fact that the demand for loans cannot be fully met, the actual rate is frequently usurious. Foreign capital discretely avoids Western Kansas and the farmer is at the mercy of the lenders of local capital. Eastern life insurance companies make extensive loans in only two of the 46 counties comprising the western part of the state, Barton

Barton and Stafford.

In the eastern half of the state, life insurance companies make mortgage loans up to 40 and 45 per cent of the value of farm lands at 5 and 5.5 per cent. To this rate, on a five year loan, must be added the loan agents commission of 5 percent, which makes an addition of 1 per cent to the amount recorded in the mortgage instrument. In some counties where competition is not strong factor the agent's commission is much higher, but in no case does it cause a difference of more than 2 per cent between the rate paid by the farmer and the rate received by the insurance company.

"Banks and mortgage companies seldom make loans for less than 6 per cent, but with these institutions the charge is not over 2 or 3 per cent on five year loans. Usually the borrower pays the commission at the time the loan is made by having it deducted from the principal. For instance, a commission of 3 percent deducted from a loan of \$500, maturing in five years and bearing 6 per cent interest, leaves the borrower a net loan of \$485. When he has paid interest charges of \$50 per annum and repaid his principal, his actual interest charges have been 6.8 per cent. On larger loans a second mortgage is taken for the amount of the commission."

A more extensive investigation of the subject has been made by Mr. Pope. Mr. Pope divided the country into three sections on the basis of similarity in mortgage conditions, namely, the older sections of the North and Middle West, the South, and the newer sections of the West and the North West.

1.

Mr. Pope arrived at the following conclusions.

"In the most favored sections of the North the rate is about 5.5%, plus a 2% commission distributed over five years, which makes the cost of the loan about 5.9%. The commission covers all expenses save the registration fee. In the less favored sections the rate is from one-half to three-fourths per cent higher, that is it varies from about 6.4% to about 6.65%. The North and Middle West bear 60% of the entire mortgage indebtedness of the country.

"In the South the majority of the borrowers pay 6.5% plus a 2% annual commission, or 8.5%. This section bears about 20% of the total mortgage indebtedness of the country.

"In the West and the Northwest the rate is about the same as in the South. This section bears about 20% of the mortgage debt of the country.

1. Agricultural Credit in the United States. Quarterly Journal of Economics, August, 1914. page 718.

"But there are numerous exceptions to these statements of rates. Many farmers are able to borrow money at from four to five percent while in the South and the newer sections of the United States, loans not infrequently pay 10% interest, with the addition of a three to five percent annual commission."

In general the following conclusions may be drawn as regards interest rates in the United States. In the eastern and northern states the interest rates are quite reasonable. The rates paid by the farmer are not higher than those paid by men in other lines of business. Commission charges are low, in many states less than 0.1% on long term loans.

In the South, West, and Northwest, on the otherhand, interest rates are high, in fact in a few states they are exorbitant. Few legitimate concerns, no matter how well managed, could pay interest rates paid by the farmers in these states and make a return on their capital invested. Particularly is this true in the South, where, as has been pointed out, many small farmers are slaves to a system which absorbs all their profits and keeps them in a state of practical peonage.

The Term of the Loan and the Effect on Interest Rates.

High interest rates are not the only defects

in our present credit system. From Table 4, it will be noticed that the average term of loans to farmers varies in the several states from 1.7 years to 7 years, the general term being two, three, and four years. Manifestly this is too short a period to serve the needs of the farmer. The farmer needs loans for a long period of time -- from ten to thirty years. The fact that the farmer has to renew his loan every few years greatly increases the cost of his loan. It means that new commission charges and registration fees are exacted each time the loan is renewed. In the course of twenty or thirty years such renewal commission and registration fees amount to considerable. By doing away with the frequent commission charges and registration fees, 7.5 and 8 per cent loans could be frequently be cut to 6 per cent loans. It is thus seen how the evil of high interest rates are augmented by short term loans and commission charges. In addition to this, the farmer is often discouraged from borrowing because of the uncertainty of the future of his loan. He has no assurance that he will be able to renew his loan on anything like reasonable terms at maturity. The farmer is unable to plan for the future because he has noway in which to determine how much interest he will have to pay in the future.

Defects in Our State Laws.

Finally, unwise state legislation has done a little to prejudice the credit position of the farmer. The redemption law of Kansas, for instance, gives the mortgager who has defaulted on his interest payments, a period of 18 months after foreclosure in which to redeem his obligations and regain title to his land. An exemption law in the same state makes it possible for a person to own 160 acres of land and still be law proof against collection of debts by his creditors. Such laws as these though originally intended for the benefit of the farmer have proved otherwise. They have impaired the security of his mortgage and made it more difficult for him to obtain credit.

Cumbersome registration laws have had a similar effect. They not only increase the cost of making loans but they prejudice the lender against mortgage securities.

Lastly, the tax law of several states provide for the taxation of farm mortgages. The general tax law of Kansas if not evaded would scale down the lenders interest rate approximately 1.5 per cent. In Kansas the interest rate on farm mortgages is determined largely by foreign capital which is not subject to the tax of Kansas. As a result a

great deal of Kansas capital is sent outside the state for investment in order to escape the mortgage tax. The lessened competition among the lenders of Kansas results in a higher rate of interest. In other states where the rate of interest is not determined by foreign capital, the amount of the tax is added by the lender to the rate of interest and is paid by the borrower.

CHAPTER II.

The Land Credit Reform Movement in the United States.

The United States and the American Commissions.

Land credit as an organized movement in the United States dates back to the years 1910 and 1911. It would be hardly correct to state that these were the beginning of the movement for the Rural Credit question is an old one.

Land Credit was first agitated by Senator Peffer and others during the Populist movement in the early nineties. Bills for the relief of the farmer were introduced in Congress at that time which read^{1.} very much like some of the more recent proposals. The early agitation however bears no direct connection with the movement of today and the only value in mentioning it here, other than passing interest, lies in the fact that it pointed to a need -- a need expressed in a discontent on the part of the agricultural classes with the existing conditions; this discontent persists to the present time.

1. W.A.Peffer, The Farmers Side. Page 250.

The present movement owes its inception largely to the work of Hon. David Lubin, United States Delegate to the International Institute of Agriculture at Rome. Mr. Lubin was among the first to study the rural credit systems abroad and to recommend the adaption of the principles there employed to American conditions.

The first official investigation of the subject was made by the National Monetary Commission appointed in 1907. The Commission collected some valuable information on land banks and cooperative credit systems in Germany and France.^{2.}

In 1908 President Roosevelt manifested his interest in the problem of bettering agriculture conditions by appointing the Rural Life Commission. This commission recommended, among various things, for the betterment of community life in the United States, the adoption of cooperative credit systems by the farmers.^{1.}

In November 1911 at the suggestion of Myron T. Herrick who was at that time United States Ambassador to France, the American Bankers Association at its annual meeting in New Orleans passed a

1. Senate Document No. 705, Report of the Country Life Commission. Feb. 9, 1909.
2. Senate Documents, Nos. 508 and 522, 61st Congress, second session.

resolution instructing its Committee on Agricultural and Financial Education and Development to investigate the general subject of rural finance in relation to
1.
conditions in the United States.

In 1912 President Taft became so well impressed with the need of rural credit reform that he directed Secretary of State, Knox, to instruct the embassies in Germany, France, Belgium, and Netherlands to investigate the matter of rural finance in their respective countries. In compliance with this request, Myron T. Herrick, United States Embassy at France, submitted a Preliminary Report on
2.
Land and Agricultural Credit in Europe. President Taft submitted this report to the governors of the various states together with a letter in which he called attention to the excessive interest rates which the American farmers were paying as compared with the rates paid by European farmers and American industrial corporations. Mr. Taft attributed the difference in rates largely to the lack of financial machinery which prevented the farmer from offering his securities to the investor in an attractive form.

1. Herrick & Ingalls Rural Credit, Preface, page 7
2. W.H. Taft, Letter to the Governors, Senate Document No. 967, 62nd Congress. page 3.

Mr. Taft closed his recommendation that the governors make the subject of rural credit a matter of serious study and consideration at the next conference of
1.
governors.

In April 1912 The Southern Commercial Congress at its meeting at Nashville, Tennessee, at the suggestion of David Lubin, held a conference on rural credit. At this conference resolutions were unanimously adopted providing for an American Commission to investigate the systems of rural credit in Europe. The Commission was to be composed of two representatives from each state in the Union and
2.
two from each province of Canada.

In the Presidential Campaign of 1912 the movement received the hearty endorsement of the Democratic, Republican and Progressive parties. Planks were inserted in their respective platforms recommending the investigation of rural credit institutions abroad and the passage of Federal and State laws establishing such institutions in this country. While these expressions of solicitude for the welfare of the farmer were doubtless designed to catch the agricultural vote, they served one

1. W.H.Taft, Letter to the Governors, Senate Document No. 967, 62nd Congress. page 7.
2. Herrick & Ingalls Rural Credit, Preface, page 7.

useful purpose -- they awakened a keen interest in the United States rural credit and pointed out that other and perhaps better systems were in operation in Europe.

President Wilson proclaimed his advocacy of the movement in his inaugural address of March 4, 1913. His actions were not confined to words alone for on the same day he approved an act of congress which authorized the appointment of a United States Commission, composed of not more than seven members, to cooperate with the American Commission assembled under the auspices of the Southern Commercial Congress and to investigate and study European Credit Systems. The following individuals were appointed as members of this commission; Senator Duncan W. Fletcher of Florida, Senator Thomas P. Gore of Oklahoma, Congressman Ralph W. Mose of Indiana, Col. Harvey Jordon of Georgia, Dr. John L Coulter, Agriculture expert of the Census Bureau, Kenyon L. Butterfield, President of the Massachusetts Agricultural College, Clarence J. Owens, Managing Director of the Southern Commercial Congress.¹

President Wilson has further championed the cause in many subsequent speeches. In one significant speech he declared that "special machinery

1. Senate Doc. No. 380, Part III, 63rd Congress, 2nd session, page 9.

and a distinct system of banking must be provided for if rural credits are to be successfully and adequately supplied. A government commission is now in Europe studying the interesting and highly successful methods which have been employed in the several countries of the Old World, and its report will be made to Congress at the regular session next winter. It is confidently to be expected that Congress will at that session act upon the recommendations of this report and establish a complete and adequate system of rural credit. There is no subject more important to the industrial development of the United States. Our farmers must have means afforded them of handling their financial needs easily and inexpensively. They should be furnished these before their enterprises languish and not afterwards. And they will be. This is our next
2.
great task and duty."

The President made clear his position with regard to the nature of the legislation which he desired to be enacted in his annual message to Congress on December 2, 1913, in the following words: "the farmers, of course, ask and should be given no special privilege such as extending to them the credit of the government itself. What they need and should
2. Woodrow Wilson. Moody's Mag. Sept. 1913, page 135.

obtain is legislation which will make their own and substantial credit resources available as a foundation for joint concerted local action in their own behalf in getting the capital they must use. It is to this that we should address ourselves".^{3.}

The United States Commission appointed by President Wilson, together with the American Commission composed of seventy delegates sailed from New York, April 26, 1913, and returned July 25, 1913. The general plans for the work of the commissions were arranged by Hon. David Lubin. The work consisted for the most part in hearings and presentations by experts concerning the organization and operation of the various credit agencies in the various countries which were visited by the commissions. This was supplanted by personal investigations and studies by the sub-committees. The United States Commission collected a vast amount of information and data; some of which is quite valuable but is so obscured by a mass of undigested detail that it is not very intelligible. On the whole, the reports of the hearings and investigations give the impression that the information contained therein was supplied for the most part by friends and supporters of the rural credit system in the countries visited. Unfavorable criticism being noticeably lacking.

The conclusions reached by the United States Commission were set forth in two reports; the first,
^{1.}
on Land Mortgage or Long Term Credit, and the second,
^{2.}
on Personal or Short Term Credit. These reports contain a brief general analysis and description of the essential features of the credit institutions abroad with particular regard to their adaptability to American needs. The Commission was convinced that the basic principles of mortgage banks were well adapted to meet the long term need of American Agriculture and urged immediate action on the part of both the Federal and the state legislative bodies to perfect plans looking toward the establishment of rural credit institutions based largely on the credit institutions of Europe. "Agriculture conditions", reads the report, "do not vary more widely in the different states of our country than do conditions in the several states of Europe where banks have been successfully operated over long periods of time. Therefore a careful study of European experience with mortgage banks forces the conviction that the basic principles of mortgage banks are well adapted to meet the necessities of American Agriculture. It is a question of wisely applying well established prin-
^{3.}
ciples rather than of copying methods of organization."

1. Senate Doc.No.380, Parts 1 & 2. 63rd Congress 2nd Session.

2. " " " " Part III, " " " "

3. " " " " " II " " " "

The commission recommended as best suited to American needs "a bank with a foundation share capital limited to loans on Agricultural real estate within a circumscribed area. The minimum capital should not be less than \$10,000 with compulsory increase, either by accumulation of surplus funds or sale of capital stock in proportion to the increase^{2.} in volume of business."

In general, the Commission was of the opinion that the banks thus established should be under Federal rather than state control and that they should be independent, competitive institutions conducted either as private or cooperative enterprises. The Commission regarded government aid not only unwise, but unnecessary and antagonistic to the spirit of our institutions. The Commission further pointed out that for the best success of the institution it was highly desirable; that the capital stock, the bonds issued by the banks, and the mortgages held by them should be exempt from taxation; that the bonds be made available as security for deposits of saving funds, as legal investments for funds accumulated as time deposits in national banking associations, and as legal investments for trust funds under charge of the United States Courts; and

2. Senate Doc. No.380,PartII, P.15, 63rd Congress, 2nd session.

finally that the laws of the various states governing registration, conveyance, and foreclosure be simplified and that exemptions on farm mortgages be^{1.} abolished.

The recommendations of the Commission were embodied in a bill drafted by Senator Fletcher and Representative Moss, the chairman and Vice chairman of the Commission, and presented to Congress during the second session of the 63rd Congress.

Federal Legislation.

In the mean time, the question of land credit as a matter for legislative action had been brought up in the first session of the sixty third Congress during the discussion of the Federal Reserve Act. The question was considered and debated. The matter, however, was dropped with the incorporation of Section 24 in the Act and a promise that the subject would be given special consideration under a separate act.

Section 24 of the Federal Reserve Act provides: "Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land, situated within its Federal Reserve district, but no such shall be made for a longer period than five

1. Senate Doc.No.380. Part II,p.31. 63rd Congress.
2nd session.

years, nor for an amount exceeding fifty per centum of the actual value offered as security. Any such bank may make such loans in an aggregate sum equal to twenty-five per centum of its capital and surplus or to one-third of its time deposits and such banks may continue hereafter, as heretofore, to receive time deposits and to pay interest on the same. The Federal Reserve Board shall have power from time to time to add to the list of cities in which national banks shall not be permitted to make loans secured by real estate in the manner described in this section."^{1.}

During the first and second sessions of the sixty third Congress, eighty six different measures were introduced in Congress providing for some form of rural credit. Among the more important bills introduced were: the Moss-Fletcher bill, the Bathrick bill, and the Bulkley bill.

The Moss-Fletcher Bill.

Following the recommendations of the United States Commission, the Moss-Fletcher bill provided for the creation of a system of independent competitive national farm land banks under Federal charter and control but limited in operations to a single state. These national farm land banks could be established

1. H.R. 7837. Federal Reserve Act.

by associations of any ten persons contributing the required \$10,000 capital stock. The associations were to be under the direction of a special commissioner who should preside over a bureau of Farm Land Banks to be established in the Treasury Department. The banks were empowered to receive government deposits and do a general banking business as regards their deposits and depositors. They were furthermore empowered to make long term loans (not exceeding thirty five years) upon first farm mortgages. The amount of the loan was limited to fifty percent in the case of improved lands and to forty percent in the case of unimproved lands, of the value of lands so mortgaged. It was further provided that each such mortgage should contain a mandatory provision for the amortization of the loan by annual or semi-annual payments on account of principle, provided the loan was for more than five years. The most important privilege granted them was the power to issue debenture bonds against the combined security of the mortgages held. An attempt was made to limit the rate of interest to be charged the farmer by providing that the charges of administration imposed upon the borrowers shall not exceed an annual charge of one per cent upon the amount paid on the loan; that is, the rate charged the farmers shall

not exceed the rate paid on the bonds by more than one per cent. The capital stock and surplus and the incomes derived therefrom, the mortgages and deeds of trust held by the bank, and the national land bank bonds issued by the same, were to be exempt from taxation. The bonds were made available as security for postal savings funds, as legal investments for United States funds, as legal investment for time deposits of national banking associations, and as security for loans by national banks to national farm land banks under section twenty four of the Federal Reserve Act.

Extensive hearings were held on this bill.

It failed to pass, however, due largely, as Mr.

1.
Pope says, to the impression among the members of Congress that it was not radical enough to satisfy the farmers, that it was a bankers bill drawn in the interest of the lenders rather than of borrowers, and that it was inadequate to afford the needed relief.

2.
The Bathrick Bill.

It was claimed by many that the Bathrick Bill, introduced at about the same time as the Moss-Fletcher Bill, better met the needs of farmers. This

1. Agriculture Credit in the United States. Q.J.E.
Aug. 1914. page 743.

2. H.R. 11897. 63rd Congress, second Session.

was indeed a radical measure. It provided that the Federal government should enter the loan business. It authorized the Secretary of the Treasury to borrow money on the credit of the United States by issuing from time to time registered bonds which were to bear an interest rate of three and one-half per cent. The fund so provided was to constitute a loan fund from which the government should make loans to farmers upon the security of first farm mortgages. The loans were to bear a rate of not more than four and one-half percent. They were limited to sixty per cent of the value of the property offered as security. No loan was to be for more than \$15,000 or less than \$300. The work of making the loans was to be carried out through farm credit associations of other designated agents acting as agents of a Farm Credit Bureau. The agents were to receive a commission of one-half per cent on the loans made.

The strong opposition to the Moss-Fletcher bill on the part of those who favored the more radical measure led to the withdrawal of the Moss-Fletcher bill and the substitution of a new bill known as the Federal Farm Loan Bill or Hollis-Bulkley bill.

1.
The Bulkley Bill.

The Bulkley bill proposed to establish a
1. H.R. 16478 63rd Congress 2nd Session.

system for land banks analagous to that established by the Federal Reserve Act for commercial banks. The administration of the system to be under the control of the Federal Reserve Board. The country was to be divided into twelve districts. In each district there was to be established a system of farm loan associations and a single Federal Land Bank. The National farm loan associations were to be formed by any five persons contributing the required capital of \$10,000 upon application and approval of the National Farm Loan Commissioner, who was to be appointed by the Federal Reserve Board. These associations were authorized to make loans to farmers upon first farm mortgages.

The Federal Land Bank was to be established by the national farm loan associations. Each association was required to subscribe for not less than \$1,000 of the capital stock of the Federal Land Bank. The Federal Land Bank was required to have a subscribed capital of not less than \$500,000 before beginning business. In case the bank failed to get this amount subscribed, it was to be the duty of the Secretary of the Treasury to subscribe for the remainder of the stock. The Federal Land Bank was authorized to buy, at its discretion, the loans

acquired by the loan associations and to issue and sell subject to the approval of the Federal Reserve Board, against the mortgages thus acquired, Farm Loan Bonds. The bonds were to bear a rate of interest of not more than five percent. The bonds as well as the capital stock of both the Federal Land Bank and the loan associations were to be exempt from taxation. The Trustees of savings banks were directed, whenever funds should be drawn from postal savings depositories for investment, to employ such funds in the purchase of Federal Farm Loan Bonds in the open market if they could be bought below par. It was further provided that, upon application of one or more of the Federal Land Banks and upon recommendation of the Federal Reserve Board, the Secretary of the Treasury should purchase Farm Loan Bonds not previously issued or sold, and in an amount not to exceed \$50,000,000 during any one year and should pay for the same out of any moneys in the treasury not otherwise appropriated.

The Bulkley bill was for a time the center of the mortgage credit discussion and debate in Congress. It failed however to meet the approval of the administration which was opposed to granting financial aid by the Federal government. On account of the many other measures before Congress at this

the bill was finally dropped. "At length the Agriculture Appropriation bill came up for consideration in the House, Representative Bulkley, in a last effort to save the Hollis-Bulkley bill, proposed it as an amendment. In this he was partly successful as the amendment passed the House March 1, 1915. Meanwhile the McCumber amendment, also proposed as a rider on the Agriculture Appropriation bill, had passed the Senate February 25, 1915. This measure provided for the establishment of a bureau in the Treasury Department with power to issue bonds and purchase farm mortgages from state and national banks so long as its bonds could be disposed of at par. No objection was made to the amendment by the supporters of the Hollis-Bulkley bill because they expected the latter to be adopted in conference. But owing to the lack of time for proper consideration, the two riders were stricken out and replaced by a clause authorizing the formation of a joint committee of twelve members of the Senate and House to prepare and report to Congress on or before January 1, 1916, a bill or bills providing for the establishment of a system of rural credits adapted to American needs and conditions. This action was approved March 4, 1915, and the joint committee was immediately organized."

1.G.E.Putnam, The Federal Farm Loan Act. Amc.Econ.
Review, Dec.1916.page 774.

The Sixty Fourth Congress and the Joint Committee.

The interest taken by Congress in rural credit during the Sixty fourth Congress is well express by the headlines of an article on that subject in the Journal of the American Bankers Association, "Rural Credit Campaigners Introduce Avalanch of Bills in 1. Congress". These bills contain a variety of schemes ingenious and otherwise for financing the farmer.

The following is a brief review of some of the bills from the Journal of the American Bankers Association: 2.
"Senator Gronna of North Dakota provides for government aid in the form of an immediate deposit with the National Farm Loan Associations provided in his bill of \$5,000,000 by the Secretary of the Treasury. This is to be increased as rapidly as state loan associations are formed." "In several bills account is taken of the fact that postal savings are available and subject to the control of Congress. Government aid is apparently popular. Several bills provide that the Secretary of the Treasury shall advance money directly and some provide that bonds of the loan associations shall be purchased by the Treasury. Representative Henry of Texas wants the Secretary of the Treasury to buy at least \$100,000,000 of farm loans per year. Mr. Doolittle of Kansas wants

1. Jan. 1916. page 568.

2. Jan. 1916. page 568.

the Secretary of the Treasury authorized to print certificates and have these certificates made money and legal tender by law. There is another bill which provides for government aid to workers in building homes. Under this bill the Secretary of the Treasury is directed to print legal tender notes to the amount of \$500,000,000, the notes to bear the words 'Workers Home Greenbacks', There are various allusions to the Federal Reserve Act. Representative Adamson of Georgia, would have the Federal Reserve Banks, member banks, or any other bank, empowered to make loans on farm lands. Representative Aiken would have national banks authorized to lend money or farm security". The above review gives an idea of the variety of bills with which Congress had to deal.

On January 3, 1916, the Joint Committee on Rural Credits, which had been appointed at the close of the previous session to investigate the matter, submitted the report of its subcommittee on land-mortgage loans together with a draft of a proposed bill. This bill, introduced two days later differed slightly from the Hollis-Bulkley bill. It was favorably reported on by the Senate Committee on Banking and Currency with amendments February 15, and passed the Senate with scarcely any opposition May 4. The same

bill somewhat changed passed the House May 15, and
1.
became a law July 17, 1916.

1. G.E.Putnam, The Federal Farm Loan Act. Amc.Econ.
Review, Dec. 1916. page 774.

State Legislation.

The prolonged delay on the part of Congress in arriving at a satisfactory solution of the credit problem resulted in the initiative being taken in this field by the state legislatures where, in the 1914 and 1915 sessions, rural credit was a live issue. "That the American states are vigorously attacking the agricultural credit problem," says Professor Putnam, "is evidenced by the number of rural credit measures which have been enacted into law within the last two years. No less than seven states now have comprehensive laws designed to bring about desirable reforms in the land credit systems. In seven states there have been enacted laws governing the formation and management of credit unions or cooperative credit associations. The most important legislative measures, however, have been concerned with the land credit reform problem. Massachusetts, Utah, and Wisconsin have made special provision for the establishment of competitive farm land banks under state supervision; the New York legislature has provided for the organization of the Land Bank of the State of New York, a central institution, to be owned and controlled by local savings and loan associations; while Missouri, Montana, and Oklahoma have abandoned all hope of

solving the rural credit problem through private initiative and have adopted modified programs of state loans."

"These measures are not altogether dissimilar. Although there is considerable difference in the proposed machinery for administration and supervision, all contain plans looking toward a longer term of loans, repayable by amortization, and the issue of bonds on the collective security of farm mortgages. The chief differences are to be found in the effect which these measures are expected to have upon the farmer's rate of interest. From this point of view the laws are of two fairly distinct types. One type seeks merely to reduce a portion of the waste in the present land credit system by improving the method of making loans and by giving greater mobility to funds seeking safe investment. The other contemplates, in addition, a material reduction in the farmers rate of interest either through the organization of a strong central bank or through a program of minimum state aid."

1.
2.

The Wisconsin Law.

The Wisconsin Law is typical of the state laws providing for competitive farm land banks under

1. Agricultural Credit Legislation and the Tenancy Problem. G.E.Putnam. Amc.Econ.Rev. Vol.5.No.4. Dec.'15.
2. The Banking Laws of Wisconsin. Revision of 1913, c.666.

state supervision. This law provides for the establishment of land mortgage associations by not less than fifteen adult freeholders of the state. The associations thus formed must have an aggregate capital of not less than \$10,000 divided into shares of one hundred dollars each.

The associations are authorized to make loans and to accept as security for any loan first mortgages upon agricultural lands, forest lands, or lands occupied by dwelling houses in the state. Such loans are not to exceed sixty five per cent of the value of improved real estate and forty per cent of unimproved real estate.

The associations are further authorized to issue bonds secured by the pledge of the mortgages so taken. To secure the payment of such bonds the associations are required to pledge and to deposit with the state treasurer an amount of mortgages and notes equal to or exceeding the aggregate amount of bonds issued or to be issued. The total amount of bonds actually outstanding must not at any time exceed the total amount unpaid upon the notes secured by the mortgages belonging to the association and pledged for the payment of the bonds, plus such moneys and securities as may be on deposit with the state treasurer.

The Utah and Massachusetts Laws.

With a few minor alterations and modifications the Wisconsin law was incorporated almost verbatim into statutes of the state of Utah by the ^{1.} legislature of 1914. The same principles were incorporated into a Massachusetts law passed in 1915.^{2.}

These laws do not involve any new principles; the only thing to be noted is that each law contains clauses regulating the interest rates which the loans and bonds shall bear. The Utah law provides that the rate charged on loans or bonds shall not exceed seven ^{3.} per cent. The Massachusetts law limits the rate on loans to six per cent but provides that an additional charge on one per cent per annum on the unpaid amount of the principal may be charged to apply to the administration of the affairs of the bank. The bonds are to bear a rate of interest not to exceed five ^{4.} per cent per annum.

1. Laws of the State of Utah, 1911 -13-15, chapter 119
3. Same. Sec. 20 and 31.
2. Laws of Massachusetts, Chapter 231.
4. Same Sec. 19.

1.
The New York Law.

The New York law, passed in 1914, provides that ten or more savings and loan associations, the aggregate capital of which is not less than \$5,000,000, may organize and incorporate the Land Bank of New York. The bank must have a subscribed stock of at least \$1,000,000. It is given the power to issue, sell, and redeem debenture bonds and notes secured by bonds and first mortgages made to or held by member associations.

The system is an adaptation of the German landshaftern. The land bank is the central cooperative organization of which the member savings and loan associations are the local units. The law does not interfere with the usual operations of the savings and loan associations. It merely seeks to extend their field of operations by permitting them to cash in their surplus securities at the Land Bank and thus provide themselves with funds for further loans. It is hoped that this privilege will enable them to make loans on farm lands at a very reasonable rate and that the farmers of the various communities will be induced to join existing or organize new associations. The Land Bank is designed to gather

money from outside sources, through the sale of its bonds which are issued against the mortgages held by the bank and furnish this money to the local associations for the use of the farmer. Whenever a savings and loan association has accumulated more mortgages than it can handle it may assign them to the Land Bank; when a sufficient amount of such securities have been accumulated the Land Bank is authorized to issue debenture bonds against them. The proceeds from the bonds are turned back to the savings and loan associations.

The Oklahoma, Montana, and Missouri laws are more radical than any of the four laws just discussed. These states provide for at least a minimum of state aid in making loans to farmers.

1.

The Oklahoma Law.

The Oklahoma law authorizes the commissioners of the Land Office to invest certain state educational funds in mortgages on improved farm lands. These loans are to be made for a period of twenty three and one-half years and are to bear an interest rate of six per cent. When the loan is made the borrower gives his note which provides for the semi-annual payment of four per cent on the full face of the note.

1. Oklahoma Laws, 1915. Ch. 34.

At each payment, interest at the rate of six per cent per annum upon the total unpaid balance is deducted from the payment and the remainder is credited to the principal of the loan. At the end of the twenty three and one-half year period the loan is completely liquidated and cancelled. Loans cannot be made to one individual or family for more than \$2000. All loans must be secured by first mortgage on the farm lands upon which the borrower resides and holds as his homestead.

For the purpose of providing additional funds for further loans to farmers, the Commissioners are authorized to sell for not less than par and accrued interest all or any portion of the notes and securities referred to above. The funds realized from such sales are to be loaned to farmers against first mortgages. These securities, in turn, are available as security against which the Commissioners may issue and sell five per cent bonds to secure additional funds to make more loans. The mortgages received from each series of loans are available for further issues of bonds. As Professor Putnam states, "This would seem to create an almost inexhaustible fund provided no difficulty is experienced in floating the

2.
bonds". The bonds are not subject to the ad valorem
2. Agriculture Credit and the Tenancy Problem. Amc. Econ.
Rev. Vol.5. No.4. Dec. 1915.

tax, but the income from such bonds is taxable under the income tax law. The bonds are approved as security for the deposit of public funds and for the investments of trust companies.

1.

The Montana Law.

The Montana law provides for the creation of a Department of Farm Loans under charge of the state treasurer with the power to issue and sell degenture bonds secured by farm mortgages and to make loans to farmers from the proceeds of the same. The county treasurers are made the local representatives of the department in the several counties. The department is authorized to pass upon applications for loans which are received through the county treasurers. No application for a loan for more more than fifty per cent of the value of the security offered is to be approved. The state treasurer is authorized upon the approval of applications for loans aggregating \$100,000, to issue five per cent negotiable bonds for a like amount. Issues for less than \$100,000, may be made upon the request of a sufficient number of farmers of a community at a rate agreed upon by the farmers. The bonds are secured by a first mortgage upon the several pieces of property described in the applications. Each piece of property is pledged to secure

all the bonds in a particular issue with a provision that in case of default by any one of the mortgagors the property pledged by such mortgagor is sold for the benefit of the mortgage; and if the sum realized is less than the amount for which the property shall have been pledged with interest, each remaining piece of property is liable for its proportionate share of the deficit.

The loans are amortized by semi-annual payments of four per cent on the face value of the mortgage. One-eighth of the amount paid, or less at the discretion of the state treasurer, is used to pay the expenses of administration. The balance is used to pay interest and principal. The law does not state how much of the remaining seven and three-fourth per cent is interest and how much is payment on the principal.

The Missouri Law.

The provisions of the Missouri law are summarized by Professor Putnam as follows: "Briefly, the law provides for the establishment of a Missouri Land Bank, annexed to the office of the state bank commissioner, under the direction and supervision of a board of governors, composed of the governor of the state, the attorney general, the secretary of state, the state treasurer and the state auditor. Loans varying from \$250 to \$10,000 are to be made to farmers up to fifty per cent of the value of their

lands for terms of not less than five or more than twenty five years. An amortization scheme, borrowed with some inaccuracies from the Credit Foncier, provides for the repayment of the principal within the term of the loan in fixed annual payments consisting of interest, one-half percent on account of the reserve, and the remainder on account of principal. The law expressly stipulates, i.e., to complete the purchase price of land, to pay off existing incumbrances, and to make permanent improvements. Of the total amount loaned, 25% may be used for the purchase of stock and machinery.

The initial working capital of the Bank, \$1,000,000 is to be appropriated by the legislature from the funds in the state treasury. One half of this amount will be loaned to applicants at a net initial rate of 4.3 per cent. Thereafter, capital will be provided through the sale of debenture bonds, issued in series of \$500,000, and loaned to farmers at the rate which the bank must pay on the bonds. Whenever there are deeds of trust on hand aggregating \$500,000, a new series of bonds will be issued until the total issue has reached \$40,000,000. Further issues may be made indefinitely at a ratio of \$30 of bonds to \$1 of the reserve.

1. Agriculture Credit Legislation and the Tenancy Problem. Amc.Econ.Rev. Vol 5. No.1. March. 1915.

An effort is made to give the bonds a high standing as investment securities. Every series of bonds will be secured by a like amount of deeds of trust on farm lands within the state appraised at double the face value of the bonds. For the purpose of insuring careful appraisement, the state is divided into districts and an expert appraiser is appointed for each district at a salary of \$2000. The appraiser is to have the cooperation of local banks in securing information relative to the applicant for a loan, and the services of state and county officials in passing upon title abstracts. These services are to be rendered without fee. Furthermore, the bonds will have as security the bank's reserve fund. The board, however, has the discretionary power to refund to each borrower, who has made regular payments for at least ten years, the reserve of one half per cent collected on his payments or that proportion of it which remains after charging it with its share of expense and loss. When the reserve fund has accumulated to an amount sufficiently large that it will no longer be needed to insure the solvency of the bank, the legislature is to provide for its repayment to the state. Finally, the bonds are exempt from taxation; and in all cases where the

law requires a deposit of securities to be made with the superintendent of insurance or the state treasurer, the bonds are to be available for that purpose 'as if they were bonds of the state of Missouri'".

Conclusions.

With the passage of the Federal Farm Loan Act, we find the Federal government as well as seven of the states embarking upon an enterprise which they little understand and cannot well discontinue when once underway.

The most conspicuous feature of this legislation is its haphazard character. The number and variety of bills introduced in Congress prior to the enactment of the Federal Loan Act is evidence to the fact that there was not a very clear conception among the members of that body as to the manner in which it should be solved. The plans and ideas of the reformers appear vague, unformulated and conflicting. They were in accord on but one thing -- that the

farmer should have cheap credit for long periods of time and on easy terms of repayment. The machinery by which this end was to be accomplished was the center of much discussion in Congress. Should there be a centralized system as proposed in the Moss-Fletcher bill or a decentralized system as provided in the Hollis-Bulkly, and Hollis bills? Should the banks thus established be primarily private competitive banks as provided in the Moss-Fletcher bill, cooperative institutions as provided in the Hollis-Bulkly bill, mixed systems as provided

in other bills, or should the Federal government enter the loan business itself as provided in the Bathrick Bill?

There was but little more unanimity of opinion in the legislative bodies of the several states in devising credit machinery. Three finally passed acts based upon private enterprise; one adopted a purely cooperative system, and three have adopted comprehensive systems of state aid.

Nature of the Credit Problem.

Much of the difference of opinion as to the proper method to be adopted is due directly to the fact that the reformers have failed to properly analyse the rural credit problem. The credit problem in the United States is a two fold problem; first, there is the problem of furnishing long term credit to the landowner for the purpose of improving and equipping his farm, second, there is the problem of providing long term credit to the tenant to enable him to purchase land. A single solution cannot be devised which will serve this double need for the interests of the two classes are conflicting. Legislation which will be effective in reducing the interest rate paid by the landowner must be accompanied by legislation to provide cheap credit to the tenant, otherwise the tenant will be placed in a more pre-

arious situation than at the present. Cheaper credit to the landowner means speculation in land and a consequent rise in land values and as a still further consequence it will be increasingly difficult for the farmer to make a return on his capital invested; it will be more and more of a problem for the landless-man to become a land owner.

None of the schemes introduced in Congress were designed to promote ownership. One state alone out of the seven which adopted land credit measures, has made any distinction between the long term needs of the land owner and the tenant. The provision in the Oklahoma law fixing the maximum loan that can be obtained by any one farmer at \$2000 and then only on condition that he be a resident on the land given as security for the loan promises to be effective, if sufficient funds are obtainable, in lowering materially ~~in~~ the percentage of tenancy in that state. On the other hand the short cut methods adopted by Missouri and Montana, even though they succeed in artificially lowering the interest rates to all farmers alike, will not better the position for the tenant. The defect in both the Missouri and the Montana laws, with regard to this point, is that they do not distinguish between these two classes.

The tenant and the landowner are left on exactly the same basis as before which means that the landowner rather than the tenants will be the beneficiaries.

As the final conclusion of this chapter, then, it may be stated that if anything is to be really accomplished in the way of providing a satisfactory, adequate, solution of the credit problem in the United States, recognition must be taken of the following facts: (1) the rural credit problem is of a two fold nature, (2) legislation which does not take recognition of the two fold nature will prove inadequate and unsatisfactory, (3) the solutions for the land credit problem as stated, should supplement rather than supplant one another.

CHAPTER III

Land Credit for Landowners.

In general the methods which have usually been proposed for solving the question of land credit for landowners are an adaptation or a combination of the principles of the following systems: state aid, cooperation, and private enterprise.

State Aid — State Aid in Europe.

State aid in one form or another has been in vogue in Europe, especially continental Europe, for many years. Practically, state aid on the Continent is nothing more than the extension to the field of credit the ideas of paternalism and governmental interference which dominate the industrial life of those nations. Contrary to the common opinion there is not a great deal of state aid to landowners. The direct aid is usually designed to assist the landless man to become a landowner, i.e., to assist the poor peasant or laborer in purchasing a small plot of ground.

The activities of the state in supplying credit to the landowner have been confined largely to establishing and supervising the credit machinery whereby the individual is able to work out his own salvation through cooperation or private initiative

Generally speaking, the state has either furnished a part of the foundation capital or guaranteed the bonds of the institutions established. Frequently some special privilege is offered such as a monopoly of the business over a certain district. At the same time the state exercises the right of close supervision over the affairs of the institutions usually the bonds must be signed or in some way passed upon by an agent of the state before they can be issued. In many cases the principal officers are semi-public officials or are responsible to the state. "In Austria" for example, "the mortgage banks are state or provincial institutions whose bonds are guaranteed by the state or province chartering the banks. In Hungary there is a compromise between the two principles, the state advancing a part of the foundation capital, while the founders shares were sold to secure additional capital. The control of the institution rests between those who contributed the founders shares and those who make the loans. In France, the state gave a subsidy of \$2,000,000 to the Credit Foncier, and gave it a monopoly of the long term mortgage business. The remainder of the capital, however, has been raised by sale of stock, and in all essential features this bank is a private

join-stock institution with certain special privileges
1.
granted by law." In Germany, the state exercises a
rigid supervision over the officials and business
operations of all the mortgage credit banks. In
addition, the state, the province, and the districts
have created sixteen semi-public non-profit seeking
mortgage credit banks. The larger number of them
are organized as jointstock concerns, the shares
being held by provinces, communes, and public savings
banks of their localities. They are managed by
committees appointed by the stockholders and under

2.
state control. "They grant long term reducible
mortgage loans and issue debentures to raise money
needed for carrying on their operations. These
debentures have no fixed date of maturity, are drawn
in small denominations payable to bearer and are
redeemable at the will of the makers out of the
annuities received from the borrowers. Their final
security is the guarantee of the government and they
are used as investments for funds of savings banks,
3.
insurance companies, and all kinds of trustees."

1. Report of the United States Commission. Senate Doc.
No.380, Part II p. 22. 63rd Cong. 2 Session.
2. Herrick and Ingalls, Rural Credits, p 94.
3. " " " " " " 93.

The general attitude in European countries toward direct state aid for the landowner is one of opposition. Even direct aid to cooperative societies and tenants have not passed without criticism. The general criticism urged everywhere against the state aid is that it deadens the spirit of enterprise, whether the borrower be a cooperative society, a private company, or an individual."In the few countries where the associations depend on charity or state aid, the members lack private initiative, and are inclined to look upon donations and appropriations as gratuities not to be repaid even by thanks, and are in constant need of new benefactions to keep them together.¹ "Not only," says Mr. Pope, "does the financial aid tend to demoralize the individual but in the long run it dries up the source of credit. This is the testimony of most of the Europeans who have given their lives to the solution of the problem of agriculture credit; Some at first advocated state aid, but when confronted with its results, they became ardent opponents. In response to appeals from leaders of the cooperative movement, for example, the Prussian government established the Prussian Cooperative Bank, but despite the excellent management of the bank, it soon became apparent, that it was stifling the cooperative credit

1. Herrick and Ingalls. Rural Credits, p. 261

movement, and the latter has for a time been trying to shake itself free from the Banks grasp. -----
At the International Cooperative Congress in 1894, the question of state subventions received much attention. A few extracts will show the drift of the statements made on that occasion by the European leaders. Doctor Alberti of Germany declared 'Every manner of subvention by the state must be rejected. And my opinion supporting this argument is based on forty years experience.' Herr von Elm expressed strong objection to state aid and said that the state should confine its efforts to education and emancipating laws, and that it should, 'give the agricultur-
alist elbow room and let them alone.' M. Furedi of Hungary stated, "In spite of state aid lavished on the central credit organization, the rate of interest is 7 to 8% for money advanced by the state gratis out of taxes'; and Doctor Karacsonyi, also of Hungary, declared, 'There are no successes to be put to the credit of state aid. Money so lightly got is a producer of extravagance' Similar utterances came from Warbetz of Austria, and from Chiousse and Durand of
1.
France."

State Aid in Australasia.

State aid has been granted quite liberally in Australia and New Zealand for the purpose of en-

courage closer organization of the settlement. The most serious problem with which both of these countries have had to deal with is the problem of land monopoly. The seriousness of the land monopoly, in the colonies of New South Wales, Victoria, New Zealand, and South Australia, at the time of the inception of the movement for state aid, is indicated by the fact that about 2,100 proprietors (companies and persons) held about 43,000,000 acres of land in freehold.^{2.}

One of the earliest measures adopted to break this land monopoly was state aid to settlers. The idea was to stimulate settlement by giving financial aid and inducement to small farmers and settlers. Acts providing for state aid to farmers were passed in nearly all of the provinces. The State Advances Act of Western Australia in 1894, amended in 1896, The Agricultural Bank Act of Queensland in 1901, The Advance to Settlers Act in New South Wales in 1899, the Savings Bank Act of Victoria 1890, and The Home Colonization Act of New Zealand were all designed to break up the land monopoly.^{1.}

For the most part, the general provisions of these acts are similar. Briefly, they provide for the creation of boards or commissions through which long term loans may be made to farmers for the

1. Herrick and Ingalls. Rural Credits, pp.194-194
2. W.P.Reeves. Land Taxes in Australasia, Econ.Journal Vol. 21, Dec, 1911, p. 515

purpose of buying land and stocking or improving their farms. The funds for making loans are raised through the issue and sale of government bonds. The loans thus made bear a low rate of interest and are repayable in installments.

It is difficult to appraise the value of such laws. One thing is certain, however, they failed to break up the land monopoly. Land values which were already speculative investments became more desirable. Land values increased considerably. It became increasingly difficult for the small farmer to enlarge his holdings. The aid thus given apparently only served to augment speculation and consequently increased the evils which the laws were designed to combat.

Concerning the workings and results of the Land for Settlements Act in New Zealand, Le. Rossignol and Stewart in their work, "State Socialism in New Zealand"^{1.} have the following to say: "The difficulties in the way on continuing the policy of purchasing large estates are increasing year by year. There has been during the recent years a marked rise in land values due partly to high prices for staple products, such as wool and mutton, partly due to building of railways and other public works, and

1. Herrick and Ingalls. Rural Credits, page 44.

partly to the State's entering the market as a large buyer of land. The result has been a boom in land values. Every year it becomes more difficult for the state to buy land at a price which will allow of subdivision and leasing at rentals which the tenants can afford to pay. So the state cannot go on indefinitely investing millions in land and remitting the greater part of the rents abroad by way of interest."1. "Summing up the land-for-settlements policy, it may be said that while it has placed many settlers on the land it has done so at a great cost and at a great risk to the community. For these reasons the state has recently turned its attention to another method of inducing subdivision -- the progressive taxation of large estates."

It is thus seen, because of the failure of state aid in breaking up the land monopoly, the state has undertaken to combat it from another angle, namely, taxation. The provinces of New Zealand, New South Wales, Victoria, South Australia, and Tasmania have all adopted progressive land taxes. There is little doubt that if this policy is pushed far enough it will not take long to relieve the monopolistic conditions, but it is not the purpose of this paper to take up the question of progressive land taxes.

From the experience of Australasia it

would appear that the justification to be urged for state aid to landowners lies in the fact that it might hasten the day in which other forms of legislation would be adopted which would successfully combat the evil of tenancy. However, to augment an evil by one set of legislation in order that it may be abolished by other more drastic legislation is a doubtful, if not dangerous, expedient.

State Aid in the United States.

State Aid for land owners in the United States in practically unknown. The rural credit laws recently enacted by Missouri, Oklahoma, and Montana mark the advent of state interference in this field. More recently the movement has been cut short by the failure of the Missouri electorate to ratify the rural credit law of that state in the recent election.¹ Of the other two laws, the Oklahoma law is designed primarily for the benefit of the tenant and will be considered in the next chapter. The Montana law has not met with the success its originators expected. Apparently the farmers do not care to pledge their property to secure loans, the security of which, they know little or nothing about.

The Federal Farm Loan Act provides for state aid in establishing the Federal Farm Loan Banks in case the capital is not otherwise subscribed. The Act provides that if thirty days after opening for subscriptions for capital stock any part of the minimum of \$750,000 remains unsubscribed, the Secretary of the Treasury shall subscribe for the balance on behalf of the United States.² The purpose

1. At the time of the passage of the law there was some doubt as to its constitutionality. To avoid any such ~~disputed~~ ^{difficulties} it was provided that the law should be submitted to the voters of the state under the initiative.
2. Federal Farm Loan Act.

of this provision is to insure the creation of the proper credit machinery.

In conclusion, it would seem that if the experience of Europe and Australasia is worth anything, the United States had better go slow with state aid. State aid in the last analysis is a subsidy and should be used very discriminately, if used at all. Experience has shown that state aid tends to deaden the spirit of enterprise and self-help. It tends to lessen the farmers dependence upon himself. Such a system is utterly wrong. It acts as a subsidy, when once begun it cannot be discontinued without interfering with economic conditions, after doing injustice to many who have not benefited by the subsidy. As Mr. P.W. Goebel says; "the only efficient help for the farmer is self-help and the only real help the state or government can give to the farmer is through helping him¹. help himself".

1. Economic World, April 8, 1916. p.468

Cooperative Credit.

Cooperavive credit is one of the oldest forms of land credit. It is best typified in the German system known as the Landshaften.

The landshaft is an association of land-owners organized on a cooperative basis for the purpose of procuring loans for its members by the issue of debenture bonds against the combined security of the lands offered by its members,

The first landshaft was created in Silesia by a cabinet order issued by Frederick the Great in 1769. The purpose of the institution was to relieve the distress and poverty which the land-owners and nobles of that province were enduring as a result of the Silesian wars. Many of the nobles were in a state of bankruptcy; with their lands devastated and credit gone, they had little means with which to pay the heavy taxes which were being imposed upon them. Frederick the Great sought to releive their financial embarrassment and strengthen their funds by compelling them to join an association which should borrow funds upon the combined security of the lands of all the members and reloan these funds to its members at cost. This was accomplished by an order which blanketed all the rural lands of

the nobility and gave the association a perpetual lien upon the lands as security for any debentures it might issue, decreed that all the noble farmers of that district to be members and enjoined them to assemble and complete its organization.

The association was organized in 1770. It proved so effective in relieving the credit situation in Silesia that its principles were shortly adopted in other provinces. Between 1770 and 1790 land-shafts were established in five Prussian provinces. These early landshafts appraised all the lands within their respective jurisdictions, took mortgages from members who wished credit and gave them debentures in exchange. They did not attempt to alter the relation between the borrower and the lender. Practically the only advantage which they offered was that of collective bargaining and the exchanging of a widely known credit instrument for an individual, or little known credit instrument. The association acted as an intermediary between the borrower and the lender to see that the mortgages and debentures were properly executed and to enforce the collective liability of the members on default. The bonds were guaranteed by specific mortgages, the membership was limited to the owners of large estates, and there were no provisions of any sort for amortization. The system

proved quite successful in hard years when money from other sources was scarce, but in prosperous years when money from other sources was plentiful the land-shafts suffer periods of depression.

Because of limitations and defects the land-shaft principle did not become popular for many years. It was not until after reforms were introduced in the early eighties which extended the membership to small landowners, and extended the advantages to be offered, such as; repayment by amortization, collective security of the debentures, unrecalable loans, and limitation of liability, that these associations became important sources of mortgage credit. Between 1825 and 1896, seventeen associations were organized in the various provinces of Germany. Today there are in Germany twenty three such institutions with outstanding mortgages amounting to about 170,000,000 pounds.^{1.}

Structure and Organization of the Landshaft.

The structure and organization of the various landshafts are similar only in general principles. The structure of each is devised to meet the needs and conditions of the district in which it is located.

1. J.R.Cahill Agricultural Credit and Cooperation in Germany. Sen.Doc.No.17. Vol 3, 63rd Congress. 2nd Session. p.38.

Some are much larger and therefor much more complex and highly organized than others. It will be sufficient for the purpose of this paper to consider only the general principles which are common to all.

The area of operation of the landshaft is generally limited, though not necessarily so, to a single province. The nature of the landshaft organization does not seem to admit successful operation over too large areas.. The areas covered are usually divided into districts and sub-districts with independent directors and managers over each.

The associations are decentralized institutions under the supervision of the minister of Agriculture or a royal commissioner of the Crown. The government supervises the business operation of the association, confirms the appointments and elections of officers and the articles of the association. In fact many of the associations are semi-public institutions with officials ranking as semi-state officials.

The business of an association is carried out by a board consisting of a general director and other members elected from the different districts, and one or more non-voting members called eyndics. The latter are paid officials. It is their duty to conduct the legal business of the association, adjust claims, cancel mortgages, supervise reports, and act

as general advisors to the other members of the board.

Besides the central board of directors, there are local boards elected from the various divisions of the association. They are members of the valuation and revision committee. They pass upon application for loans, execute loan contracts, receive payments from borrowers, and bring necessary proceedings to enforce recovery in case of defaults. It is their duty to report any irregularities and circumstances which tend to impair the value of the claims of the association upon property mortgaged.

A further decentralization is found in the district committees. These are elected by the sub-districts. Their business is to assist in making appraisals and to report any delinquencies on the part of the borrowers in keeping up the value of their property.

The supreme authority in the landshaft is the general assembly composed of representatives elected by the members of the various sub-districts. It convenes only on extraordinary occasions such as to consider changes in the constitution or to borrow funds for the association.

Between the general assembly and the directorate, there is a council of administration which is a standing representative of the general assembly.

The meetings of this body are held once a year, at which time reports are made concerning the valuations and loans made during the year, bonds issued and redeemed, the state of reserves, and the rate at which bonds are to be issued for the following period.

Capital.

The landshaft has, generally speaking, no capital, that is, money capital. Its only capital is the mortgages which it holds, against which it issues its bonds. The landshaft does not furnish the borrower with funds but instead furnishes him with bonds. These bonds the borrower takes out and sells to his banker. More recently, the competition of the joint-stock banks have made it necessary for the landshafts to establish banking departments where the borrower may find a ready market for his bonds.

Membership.

Membership in the landshaft is open to every deserving farmer resident within the area of operation of the association, provided he owns agricultural lands of the size and value prescribed in the laws. Liability for the obligations of the association runs only against those who have borrowed from the association. The extent of this liability varies with the different associations. In some it covers all the real estate which the members may

possess; in others, it extends only to mortgaged property, no other property owned by the members being subject to it. The mutual liability also is frequently limited to a percentage of the loans of its members. Some of the new landshafts have done away with the mutual liability altogether.. Each member is held to pay his own loan and is not bound to stand guaranty for those of others. The losses in these associations are met out of a guaranty fund created by extra contributions or entrance fees paid by their members.^{1.}"

Loans.

The landshaft will loan up to fifty or sixty per cent of the value of the lands mortgaged. The owner applies to the office of the landshaft in the district in which his property is located; after his eligibility is properly determined by the board and approved by the permanent committee, the property is appraised. After the appraisal has been passed upon and approved by the local board and the directorate, bonds(èqual in value to one-half or two-thirds of the value of the mortgaged lands) are issued and are then turned over to the borrower. The borrower may dispose of the bonds himself or, in case the landshaft conducts a banking department, he may turn

them over to that department which may sell them as an agent of the borrower or it may make him an advance upon the bonds. The rate which the borrower has to pay on his loan depends upon the kind of bonds he selects. The intending borrower has the option of choosing three, three and one-half or four per cent bonds. The bonds are sold on the open market at the current rate. Frequently the bonds sell below par which means that the borrower receives less than the mortgage obligation and is consequently paying a higher rate of interest than appears on the face of the mortgage. "The three and one-half per cent bonds are at the present time the most numerous. In 1914, they were selling at 95 to net the investor about 3.7%. Adding to this one-half percent for the cost of administration and a smaller amount for reserves, the rate paid by the farmer at that time was between 1. 4 and 5.5 per cent.

Bonds.

Landshaft bonds are issued in denominations varying from 3 to 250 pounds and with interest rates varying from 3, 3.5, 4, 4.5, to 5 per cent.^{2.} In the beginning the bonds were secured by mortgages upon

1. J.E.Pope, Agricultural Credit in the United States. Q.E.J. Vo. 28, No.4. Aug. 1914, p.731.
2. J.R.Cahill, Agriculture Credit and Cooperation in Germany. Sen. Doc. No.17. Vol.3. p.50.

specific property and guaranteed by the associations, but since the middle of the nineteenth century this system has been abandoned and the bonds represent claims upon the association and not rights against any specific property. The old bonds conferring specific claims have been almost entirely withdrawn from circulation. Conformity between the amount of bonds outstanding and the mortgage claims is strictly maintained. The bonds do not become legal instruments until they have been duly approved by directorates or the boards of supervision, it being incumbent upon them to inspect the public registry of titles and see that all bonds issued are secured by a like amount of mortgage claims. Likewise the mortgage charges can be cancelled only upon due proof that bonds of like value have been withdrawn from circulation. In this manner the relation of equality is constantly maintained between the amount of bonds outstanding and value of mortgage securities.

Amortization.

The borrower repays his loan on the amortization plan, that is he pays the interest of his loan and a certain percent of the principal each year so that by the time the loan matures the debt is entirely wiped out. Usually, the borrower pays an annuity in half yearly installments which remain

the same as long as he is indebted to the association. The annuity is divided into three portions. The first portion is used to meet the interest on the loan; the second portion, which usually amounts to one-fourth per cent, is set aside to meet the running expenses of the association; the third portion, usually one-fourth percent or one-half per cent, is turned over to a sinking fund together with other payments the borrower may have made. This fund is used to retire outstanding debentures. The borrower is given a share in the sinking fund. When his payments plus his portion of the profits in the sinking fund equal his loan, it is considered paid and his mortgage is cancelled. At the same time by continually investing the accumulation of the sinking fund in debentures, the conformity between outstanding loans and out-^{1.}standing bonds is kept constant.

The landshafts have proved very successful in supplying the credit needs of the farmers of Germany. They have done much to stimulate and develop agriculture. They have done as much as anything else to develop the sturdy, industrious peasantry, by enabling tenants and laborers to raise themselves to the position of small landowners, and there is nothing so conducive to industry and contentment as

1. Herrick and Ingalls, Rural Credits. p.85.

private ownership in land. The system has proved so successful in Germany that its basic principles have been adopted in a number of other European countries.

Cooperative Credit in the United States.

The United States has had but little or no experience with cooperative credit. The Land Bank of New York represents the first attempt to superimpose the landshaft principles upon American financial institutions. As explained in a previous chapter the New York Land Bank is a super-structure erected upon savings and loan associations, designed to gather money from outside sources and furnish it to the savings and loan associations for the purpose of making loans to farmers. Although the required capital stock has been subscribed it doesn't appear that the bank has been called upon to do much business. The first weakness lies in the fact that the local units of this cooperative system -- the saving and loan associations -- have very few farmers as members. The machinery of the saving and loan associations is not adapted to the needs of the farmers. A few cooperative societies have been organized and successfully operated in this country in certain communities where the population is largely foreign, but the experience of the United States, as a whole, has not been favorable to cooperation. As will be

shown later, cooperation is not well adapted to the American practices and needs.

Private Initiative.

The importance of private institutions in supplying credit to landowners is best shown by the Credit Foncier of France and the Joint stock companies of Germany. These institutions are worthy of consideration because they show that the principle of long term mortgage loans repayable by amortization can be worked out under private initiative, as well as under cooperation or state aid. In France, the Credit Foncier furnishes nearly one-third of the mortgage credit of the state, while in Germany, the joint-stock mortgage banks have proved their ability to compete successfully with the old well established landshafts.

The Credit Foncier.

The Credit Foncier is a joint-stock company, organized for the purpose of making loans to landowners "repayable either at long term by annuities or at short term with or without amortization and to create and issue debentures to the amount of loans granted^{1.}". It is unlike a landshaft in that it is an organization of lenders of capital rather than an of borrowers, a profit seeking rather than non-
1. Herrick and Ingalls. Rural Credits, p.117.

profit seeking institution, and a centralized rather than a decentralized system.

The Credit Foncier was organized in 1852. It was almost immediately placed under government control and given (in addition to a monopoly of the land mortgage business of that state for twenty five years) a subsidy of \$2,000,000.

Administration.

The administrative organization consists of a president, two vice presidents, a board of directors, auditors, and a general assembly. The state exercises a measure of control over the administration of the institution through the power to appoint from the stockholders the president and the two vice-presidents, and from the Ministry of Finance, three of the board
1.
of directors.

Capital.

The capital stock of the institution is now \$45,000,000 but it may be increased to \$50,000,000. It is divided into 500,000 non-assesable shares of \$100 each. The capital is designed mainly as a guarantee of the debentures and is kept in quick assets -- one-fourth must be kept in government bonds; one-fourth is represented by companies office buildings or securities used as collateral of the
1. Herrick and Ingalls, Rural Credits. p.114-115.

Bank of France; and one-half is available for loan
2.
operations.

Five per cent per annum is allowed to share-
holders out of the earnings; after this dividend is
paid the board of directors must then set aside from
five to twenty per cent of the remainder for an ob-
ligatory reserve. The board may then provide for
whatever special reserves it sees fit, after which
the remainder of the earnings are available for
3.
dividends.

Loans.

Agricultural loans are made only upon first
mortgages and only upon property producing a certain
and durable income. No loan is granted for more than
fifty per cent of the value of the land mortgaged and
in case of properties which are subject to easy de-
preciation such as forest lands, vineyards, nurseries
and the like, one-third is the maximum. The loans run
for a period of from 10 to 75 years and are repayable
by amortization. The borrower contracts to pay in
advance every six months, a certain fixed annuity.
The rate of the annuity is computed upon the amount
of the loan, the length of the credit, and the rate
of interest. It is worked out in such a manner that

2. Herrick and Ingalls, Rural Credits. p 116.

3. " " " " " " 117.

when the loan matures the entire debt is wiped out. The borrower, however, cannot obligate himself to pay an annuity in excess of the revenue of the mortgaged property. This last provision is not to be construed to keep the borrower from making advance payments on his loan. Such payments can be made at any time.

As long as the borrower keeps his engagements his loan is unrecallable. If, however, he defaults on his annuity payments, fails to keep his property in repair, or in any other way fails to keep his engagements, his property may be sequestered by the company and the receipts taken to make payments on arrears or to make any necessary improvements and repairs. Property may after fifteen days notice be sequestered by an order of the court. If the arrears cannot be met by this method the property may be taken over by the company and sold. This process is known as expropriation. It requires only one month. All disputes over matters of fact are summarily dealt with. The books and records of the company prevail over evidence furnished by the borrower.¹

Purging.

Before granting a loan the Credit Foncier makes sure that the title is clear by a summary
¹, Herrick and Ingalls. Rural Credits. p.120-122

process called purging. This is a very important and necessary privilege for the success of the institution. After making sure that the land is clear of all registered claims, it starts a process to make sure that it is clear of all hidden claims. Notices are officially published calling upon third parties to present their claims. If no claims are presented, third parties are thereafter debared from making claims against the property. If claims are presented the company may at its discretion oppose them and call upon the owner to pay the cost of the suit or it may reject the application altogether. This process has proved very effective and inexpensive method of clearing titles; it takes only about three weeks and costs about one dollar.^{2.}

Bonds.

The Credit Foncier possesses two sources of funds from which to make loans; namely, one-half of the capital stock of the institution and the issue of debenture bonds. Since the first source is fixed and necessarily quite limited, the chief source of funds in through the issue of bonds.

Like the landshafte the Credit Foncier has the privilege of issueing bonds against the joint

security of the mortgages which it holds. The bonds are negotiated only after the loans have been made and are recallable by lot as the loans fall due. At no time can the amount of bonds outstanding exceed the amount of loans outstanding. The bonds have no fixed date of maturity. Every six months a drawing is held and bonds are retired by lot to an amount equal to the loans which have fallen due during that period. By annexing a system of lottery to the drawings a speculative value is given the bonds which adds not a little to their attractiveness as investments. In some of the issues the debentures upon being retired may receive in addition to their face value, premiums varying from \$200 to \$40,000. In 1911, there were^{1.} 4362 chances outstanding amounting to \$2,842,000.

1. Herrick and Ingalls. Rural Credits, p. 125.

1.
The Joint-Stock Banks of Germany.

In Germany, private enterprises are well represented by the joint-stock mortgage banks. There are at the present thirty seven such institutions organized for the purpose of lending money on mortgage security. Although the joint-stock mortgage banks are private institutions modelled upon the Credit Foncier, they represent a decentralized rather than a centralized system. Each bank is free to extend its operations over the whole Empire. The joint-stock banks require special authorization by the state and are under the close supervision of a special commissioner appointed by the Crown.

Business operations.

In their business operations the joint-stock banks are similar in most respects to the landshafes. The main difference in the two institutions is that the joint-stock banks have a subscribed capital and declare dividends while the landshaft associations do not have share capital and do not declare dividends. The joint-stock banks make loans on both urban and rural real estate, while the landshaft associations make loans exclusively on rural real estate and only within the province in which they are chartered. In 1911, the total outstanding loans covered by mortgages amounted to 554,870,000 pounds, of which total

about six percent or 34,000,000 pounds represented loans upon rural real estate. By way of explanation for the small portion of loans on rural property, it may be said that the jointstock banks are not primarily land credit institutions. Some of them do not grant loans upon farm lands while others do so only in exceptional cases. Only two of the thirty seven banks can be classed as land credit institutions and these two have been eminently successful in that field, possessing at the present more than two thirds of the loans outstanding on account of join-stock concerns. The two banks referred to are: The Prussian Central Land Credit Joint Stock Company with loans outstanding against rural estate to the value of 10,542,536 pounds as compared with 26,513,916 pounds on urban mortgages; and the Bavarian Mortgage and Exchange with rural mortgages to the value of 11,270,926 pounds as compared to 40,281,429 pounds on urban property.

The Prussian Central Land Credit Joint Stock Company.

As a successful privately operated land credit institution, The Prussian Central Land Credit Joint Stock Company is worthy of consideration.

The Prussian Land Credit Joint Stock Company was established in 1870. It was authorized

to issue bonds on mortgages on urban and rural property as well as communal bonds. The operations of the bank at present extend over all of the Empire. The Bank has one main office in which separate departments for urban and rural mortgages are maintained. Much of the lending is done through appointed agencies of which there are about 400 located throughout Germany. In 1911, the bank had a total capital of 2,220,000 pounds, with reserves equal to 39.2 per cent of the capital. The bank has shown its ability to compete successfully with the old well established landshafes. Today it is surpassed in amount of rural mortgages held, only by the landshafes of Silesia, East Prussia, and Posen. Loans as low as 50 pounds are granted. They are granted up to about two-thirds of the value of agricultural lands except in the case of vineyards and other lands which are easy of depreciation, in which case one-third is the maximum. Loans are amortized by means of a sinking fund to which annual payments of from one-half to one per cent are made.

Private Initiative in the United States.

Long term land credit is a comparatively new venture for private enterprise in the United States. Two companies, however, have operated suc-

cessfully in this field for several years; the Pearsons-Taft Land Credit Company of Chicago, and the Woodruff Trust Company of Joliet. These companies are worthy of mention because they show what has been accomplished in this field through private enterprise and perhaps point the way for further development. The Pearsons-Taft Company is the oldest institution of its kind in the United States. Through its good management and conservative business methods it has made for itself an enviable record in the land mortgage business.

The Woodruff Trust Company of Joliet, Illinois, was organized in 1912 for the purpose of making long term loans to farmers repayable by amortization. The bank is modeled after the Credit Foncier of France. Though organized and in operation but a comparatively short time, it has bonds and guaranteed mortgages outstanding well above \$600,000. Loans are made for a period of 20 years to an amount not to exceed 50% of the value of the land at a rate of 6%. The loan is repayable by semi-annual amortisement. The loans are made by agencies of the Company established in various parts of the state. Applications for loans are made through the local agents. Every applicant is required to fill out an application form, and the property is appraised by the local appraiser. It is

appraised a second time at the home office where state and government soil surveys are used in checking up on the conditions of the land. The application and appraisal are then referred to the executive committee for approval or rejection, special stress being laid upon the earning capacity to meet the required semi-annual payments. Funds for buying farm mortgages are obtained through the issue of debenture bonds, as is done by the foreign mortgage banks. These bonds are the direct obligation of the company and secured by its entire capital and surplus; and in addition first mortgages on property located in Illinois must always be held as collateral by another trust company located in Chicago to an amount equal to the amount of bonds outstanding; and as no loan is made for more than 50% of the value of the property there will always be held as collateral for the bonds a lien on real estate equal in value to at least twice the amount of the bonds outstanding. The bonds bear an interest rate of five per cent. The Company has an amortization system where by the debt is liquidated by the time the mortgage matures. The principle advantage of this system is that the farmer can borrow for a long period of time; the loan does not have to be renewed and the farmer is not compelled to pay additional commissions for renewals; the farmer

is relieved of the expense of bringing down his abstract, of having it renewed every few years, and is further relieved of any anxiety as to his ability to pay the mortgage when due.

Conclusions - - Land Credit for the Land Owner.

The logical solution for the problem of land credit for the landowner is through private enterprise. It has been shown that state aid is undesirable for two reasons, first, it undermines individual initiative and makes the recipient more dependent than ever on outside aid; it is a subsidy and like all subsidies cannot be continued without injustice to many in the readjustments that follow. The only feasible system of aid is one which helps the farmer to help himself. Second; state aid by artificially lowering the interest rates gives an artificial value to the land which makes it more difficult for the tenant or farm laborer to become a landowner. State aid does not promote landownership.

Cooperation has been remarkably successful in Europe. It has proved an economic blessing to the agricultural classes in the state where it is used. It seems particularly well adapted to the political, social, and economic conditions of the German people especially. It is doubtful, however, whether it would

meet with such high degree of success in the United States. The American farmer is exceedingly different from the German farmer. The American farmer is exceedingly ambitious, self-reliant and ~~a~~verse to any interference in his business affairs on the part of either the state or his neighbor. The American farmer would chafe under the restraints which cooperative enterprise must of necessity throw about its members. In the second place, cooperation will not succeed in the United States as it has in Germany because there is not the need for it here that there was in Germany. At the time of the establishment of the cooperative societies in Germany, the German farmer was in great need ^{for} credit facilities. He had few other sources of credit open to him. There is no such urgent need for cooperative societies in the United States. Such societies if established in the United States would have to stand the strong competition of well established private banks.

Private enterprise is the logical solution for the problem of land credit for the landowner. The American farmer is accustomed to rely on private enterprise for the satisfaction of his wants. The experience of France and Germany shows that private enterprise can compete successfully with the cooperative and state aided systems of credit. The Pearson-

Taft Land Credit Company and the Woodruff Trust Company prove that land credit principles can be successfully wrought out by private initiative in this country.

Land credit can be introduced in this country through private enterprise without any fundamental changes in our credit machinery. All that is needed in the enactment of laws governing the formation of land credit companies under private ownership, so regulated and supervised as to insure a reasonable degree of safety to the holders of the mortgage bonds, In addition, it would be necessary for the success of the institutions so established to repeal some of the objectionable features in our foreclosure and exemption laws, and improve our systems of land registration. It is characteristic of the European states which have land credit systems that they also have effective systems of foreclosure and of purging titles. Finally, the field could be made more attractive by exempting the bonds from taxation. The taxation laws in some of the state scale down the interest rate on farm mortgages as much as two and one-half per cent.

CHAPTER IV.

Agricultural Credit and the Tenancy Problem.

It was pointed out in the previous chapter, the rural credit laws thus far enacted, with the exception of the Oklahoma law, are designed primarily for the benefit of the landowner. The question of supplying the landless man with credit has been almost wholly ignored.

The Tenancy Problem in the United States.

The problem of farm tenancy in the United States is of such a nature that it cannot be long ignored. Each decade witnesses a material decline in the percentage of farms operated by their owners and a corresponding increase in the percentage of farms operated by tenants. The Thirteenth Census of the United States contains the following significant figures with regard to the increase of tenancy in

1.
this country:

1. Vol. 5, page 123.

Geographical Divisions.	Percent.			
	1910	1900	1890	1880
United States total	37.0	35.3	28.4	25.6
New England	8.0	9.4	9.3	8.5
Middle Atlantic	22.3	25.3	22.1	19.2
East North Central	27.0	26.3	22.8	20.5
West North Central	30.9	29.6	24.0	20.5
South Atlantic	45.9	44.2	38.5	36.1
East South Central	50.7	48.1	38.3	36.8
West South Central	41.5	36.4	27.4	26.2
Mountain	10.7	12.2	7.1	7.4
Pacific	17.2	19.7	14.2	16.8

This table shows a slow but steady increase in the percentage of farms operated by tenants in the United States. Tenant farms constituted 25.6 percent of all farms in 1880, 28.4 percent in 1890, 35.3 percent in 1900, and 37 per cent in 1910. During the thirty years from 1880 to 1910, the number of tenant farms increased 129.8 per cent, while the number of farms operated by their owners or managers increased but 34.3 percent. If the rate of increase continues in the next thirty years as it has in the past thirty years at the end of that period more than one-half of the number of farms in the United States will be operated by tenants. In a number of states; South Carolina, Georgia, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma, and Texas more than one-half of the number of farms are already operated by tenants. The consideration of the above facts give rise to two

questions; first, what is the cause of the steady increase in tenancy, and second, by what means is the growth of tenancy to be checked?

Causes of Tenancy.

The primary cause of the steady increase in the percentage of tenancy in the United States lies in the fact of rising land values. Mr. Hibbard has pointed out that other things being equal the per cent of tenancy varies directly with the price of land. On the face of it there would appear to be many exceptions to this proposition, but the exceptions are more apparent than real. It is true that in some sections of the country we find a much higher per centage of tenancy than we do in others, while at the same time there is not a corresponding variation in the price of land; it is possible to find an abnormally higher percentage of tenancy in sections of the country where the price is comparatively low and vice versa. For instance, we find a very high percentage of tenancy in the South, much higher then we would expect to find if only the price of the land was taken into consideration. Likewise in certain states like California where land prices are exceptionally high we find comparatively low rate of tenancy. These apparent exceptions are easily explained. The tenancy problem in the South is bound up with the

negro problem and the system of cotton culture, both of which make that part of the country peculiarly adapted to tenant operations. In the Pacific states the opposite conditions exist; there the high priced land is the land used for fruit growing and since fruit growing does not lend itself to tenant culture we find a low percentage of tenancy as compared with the price of land.

The relation between the percentage of tenancy and the price of land can best be shown by comparing the percentage of tenancy with the price of lands in states or sections of the country which are similar as regards character of population, and the value of the crops raised. The following table¹ prepared by Professor Hibbard, shows the relation:

STATES	Value per Acre	Perctg. of tenancy.	Rank in Value	Rank in Tenancy.
Illinois	94.90	41.4	1	1
Iowa	83.00	37.8	2	3
Indiana	62.00	30.0	3	5
Ohio	53.30	28.4	4	7
Wisconsin	43.30	13.9	5	12
Nebraska	41.84	38.2	6	2
Missouri	41.76	29.9	7	6
Minnesota	37.00	21.0	8	9
Kansas	35.50	36.8	9	4
South Dakota	34.70	24.6	10	8
Michigan	32.00	16.0	11	10
North Dakota	25.70	14.3	12	11

1. Hibbard. Tenancy in the North Central States.
Q.J.E. Vol.25.Nov.1910.

The above shows the close relationship existing between the percentage of tenancy and the price of land in the North Central States, Wisconsin, Kansas, and Nebraska apparently affording the only exceptions. The percentage of tenancy in Wisconsin is low in proportion to the price of land primarily for two reasons; first, the character of the population, which is largely German and Norwegian, a very thrifty class of farmers; second, the character of the products. Wisconsin is primarily a dairy state, dairying does not lend itself to tenant operations as freely as does grain growing. Kansas and Nebraska vary in the opposite extreme. There the percentage of tenancy is abnormally high as compared with land values; first, because the agricultural conditions are admirably adapted to grain growing and large scale production; second, because Kansas and Nebraska farms have been inviting fields for the investment of foreign capital and speculation. From the above considerations, it is reasonable to draw the conclusion that there is a direct relationship between the percentage of tenancy and the price of land.

In the last twenty five years the spirit of land speculation has been an important factor in the rise of land values. The exhaustion of the

supply of free lands and the growing scarcity of all land has given to it a speculative value. The speculative value is often far in excess of its productive value. In other words the land is capitalized not upon its percentage of earning power but upon its prospective earning capacity. The speculators and investors are not interested in the immediate productiveness of the land. That is merely incidental. They expect to reap their profits through the rise in the value of the land. The same, however, is not true of the tenant and small farmer; they are dependent upon the immediate productiveness of the land for a return upon their investment. If the land does not yield such a return, then they cannot afford to hold the land. The present small returns offer little inducement for the tenant to become a landowner. For this reason it is more profitable in many agricultural districts to rent than it is to own land.

In 1914, the Department of Agriculture completed a farm management survey covering three representative districts in Illinois, Indiana, and Iowa. Investigations were made as to the profits of farm owners and tenants in these districts. The following table shows the result of this investigation:

on 273 farms operated by their owners in Indiana,

1.

Illinois, and Iowa.

Item.	Indiana.	Illinois.	Iowa.	Grand total. Gen'l average.
Total number of farms.	123	73	77	373
Average Area	105	253	176	178
Average capital	17,535	51,091	23,193	30,606
Average receipts	1,876	5,042	2,308	3,076
Average expenses	689	1,866	858	1,138
Average farm income	1,187	3,176	1,450	1,938
Average interest at 5%	877	2,554	1,159	1,530
Average owner's labor income	310	622	291	408

From the above table it will be observed that the average labor income after deducting five per cent interest on the capital invested, amounted to \$408. This amount plus the food products furnished by the farm represents the farmers salary as manager of the business, on the whole, a rather modest salary for a manager of a business with an average invested capital of \$30,606.

The variations in the labor incomes on the 273 farms investigated are shown in the following table. 2.

Amount of income	Percent of farmers	Amount of income	Percent of farmers
-\$500 and more	9.9	\$401 to 600	8.4
- 499 to 200	8.4	601 to 800	7.3
- 199 to 0	14.7	801 to 1000	4.7
1 to 200	19.4	1,001 to 1,500	6.9
201 to 400	12.4	1,501 to 2,000	3.6
		2,001 and over	4.3

1. Bulletin 41, United States Department of Agriculture. Farm Management Survey, Table 2, page 9, Jan, 14, 1914.
2. Same. Page 10, Table 3.

The above table shows that one farmer out of every twenty three received a labor income of over 2,000 a year. One farmer out of every three paid for the privilege of working on his farm, that is after deducting five per cent interest on his investment, he failed to make a plus labor income.

The results of a similar investigation of the profits of tenants on 247 farms are set forth in the following table.^{1.}

Item.	Indiana.	Illinois.	Iowa.	Grand total Average.
Number of farms	83	71	93	274
Average area (acres)	128	202	187	172
Average capital	1,758	2,867	2,667	2,431
Average receipts	1,335	2,257	1,605	1,752
Average expenses	492	975	755	740
Average interest at 5%	88	143	134	122
Average income	843	1,282	850	992
Average tenants labor income	755	1,139	716	870

From these figures it will be seen that 247 farmers derived an average labor income of \$870 with an investment of less than \$2,500. At the same time the landowner with an average investment of \$30,606, made an average labor income of but \$408. This means that the price of land is in excess of its productive value; that rent based upon what the owner can get and not upon the market price of the land. Under the

1. Bulletin No. 41. U.S. Department of Agriculture. Farm Management Survey. Table 4 page 11.

circumstances it is more profitable for the farmer to rent land than it is to own it. As long as such conditions exist we can expect to see a continued increase in tenancy in this country.

Evils of Tenancy.

Tenancy as a system of land tenure is a condition to be deplored. The tenant, like the speculator is interested in getting the most possible out of the land and in giving the least possible in return. The immediate result is the exploitation of the soil and a general depreciation of value in the land. The products of the farm are confined for the most part to those which can be raised and sold in the same year such as grain. As a result the farm does not yield its greatest net return. The evil does not stop there. Just as the tenant and speculator are interested in getting the greatest possible benefit from the community without giving anything in return. The community is exploited in much the same way as the farm is. Neither the tenant or the speculator take any interest in schools, churches, roads and community affairs. Both are dead weights to community progress. In the past tenancy has been stepping stone to land ownership; the tenant expected some day to own his farm and be a benefit to the community in which he lived. This

class of tenants is constantly becoming smaller. The high price of land is creating a class of operators who have little hope of ever becoming landowners.

Two methods have been suggested for dealing with the tenancy problem, namely, taxation and improved land credit facilities.

Taxation as a Remedy for Tenancy.

The advocates for taxation as a remedy for tenancy hold that speculation in land is the principal cause of tenancy. They seek therefore to strike at the root of the problem by making land unattractive as a speculative investment. They propose to do this by appropriating a part of the unearned increment of land when held in large quantities. The proposal is made that a tax should be levied on large holdings, the rate increasing as the holdings become larger. Progressive land taxes have been adopted with not little success in several of the Australasian states. The appropriation of the unearned increment of land, however, opens a big question of justice and injustice in taxation. The landowner objects vigorously to the state appropriating part of the unearned increment of property in land, while at the same time, the unearned increment in other forms of wealth goes untaxed. The strong opposition which an effective system of progressive land taxes would meet

in this country at this time eliminates it from immediate consideration. There remains, then, the second method of dealing with the problem, namely, rural credit.

Rural Credit as a Remedy for Tenancy.

The advocates of progressive taxes have proposed to reduce the rate of tenancy by discouraging speculation and large holdings of land. The rural credit advocates propose to effect the same reform by encouraging the purchase of small holdings by the landless. As has been pointed out the greatest hindrance to the purchase of land by the tenant is the lack of adequate credit facilities. It is almost impossible for the tenant to buy land and pay for it out of its earnings in the course of a natural lifetime. The tenant needs to be placed more nearly on an equality with the large land owner. If he is to rise from his present position of tenant to that of landowner, he must be provided with the facilities whereby he can buy land, at a low rate of interest and on reasonable terms of repayment and for a comparatively long period of time. What is to be the nature of such a system!

It is quite evident, from past experience, that a system of rural credit is suitable for the need of the tenant will not be worked out through private initiative. Cooperation and state aid have

been suggested as the only alternatives.

Cooperation.

Cooperation has been tried with a high degree of success in Germany and other European countries. Is it doubtful, however, whether co-operation would prove as successful in the United States. The American tenant is far more independent and self-reliant than the tenant of Europe. He refuses to be bound by the ties which are necessary for successful cooperation. Cooperation has been defined as "organized self-help" or "the organized work of a community". Its success is dependent primarily upon two conditions; first, there must be a feeling of mutual confidence, fellowship and loyalty to a common cause, second, "the cooperative organization must be the child of necessity and it must crystalize around a vital economic need". If either of these essentials are absent the bond of cooperation will not endure. The first of these essentials is conspicuously absent among the tenants in the United States. The tenant shifts from one community to another, taking little or no interest in his neighbor or community affairs. The second essential, the need, is by no means so pressing in this country as it was in Germany when cooperative organization came into existence. Again, cooperative credit is

the highest form of credit endeavor, cooperative credit societies in Europe are the outgrowth of years of cooperation and mutual aid in other lines of endeavor. Cooperation cannot be legislated upon people, it must be the outgrowth of a spirit of mutual helpfulness. In consideration of these facts we must conclude that if anything is to be accomplished in the way of rural credit for the tenant, it must come through some form of state aid. State aid has proved a powerful incentive to the farmers in Ireland, Denmark, France and Norway to become land-owners.

State Aid in Ireland.

No people have felt the scourge of tenancy more keenly than the people of Ireland. Absentee landlordism and its counterpart, tenancy, have been a source of perpetual discontent, and the cause of persistent agitation for land tenure reform in the British parliament. Land purchase legislation in Ireland comprises a series of acts, some of which date back as early as 1870. Beginning with the policy of advancing a part of the purchase price to the buyer, the government has extended its policy, until now it pays the entire purchase price to the seller, the tenant buyer paying off his obligation to the state by small installments.

The most important piece of credit legislation enacted by the British parliament was the Irish Land Purchase Act of 1903, (Wyndham Act). This act provided for the creation of the Estates Commission composed of three members under executive control. The Estates Commission was empowered to acquire lands either by agreement or compulsion from large landholders and resell the lands to tenants. The requisite funds to carry the measure through were obtained through the sale of government stock bearing two and three-fourths per cent interest and not redeemable for thirty years. The act provided that the government should make advances to tenants at three and one-fourth percent, two and three-fourths to cover the interest on the government stock and one-half percent to go to the sinking fund. In addition to this, the act provides for a grant of a bonus to sellers of complete estates. The gift is fixed at for five years at 12 per cent on the purchase money of such estate. The total amount to be so granted is limited to \$12,000,000 pounds. The purpose of this provision is to give additional inducement to the landlord to sell at a low price. In effect, it amounts to a free grant to enable the

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tenant to acquire the land.

1. C.F.Bastable, The Irish Land Purchase Act of 1903.
Q.E.J.Vol. 18. p.1. Nov. 1913.

The act has proved very favorable to the tenants. A great many transfers have taken place under it. In 1909 transactions to the extent of 80,000,000 pounds had been agreed to but little more than one-third of this amount had actually been distributed. The remainder was, at that time, still to be obtained from the money market by the state. The chief difficulty with the system has been the sale of the government stock due to changes in the money market which made it difficult to sell the two and three-fourths per cent bonds at anything like par. Mr. Bastable writing in 1909 says, "Borrowing on the above plan means at the present rate a loss of nearly 15 per cent on all the stock issued, thus creating a permanent burden on the funds provided to meet the cost of flotation"¹.

State Aid in Denmark.

Denmark has largely eliminated her tenancy problem by her land legislation of 1899, 1904 and 1909. These acts provide for the acquisition of land upon fifty year loans at four per cent.² The act of 1899 authorized the government to assist in the formation of small holdings, and for a period of five years to provide a certain amount for such loans. The act

1.C.F.Bastable, The Present Position of the Irish Land Question. Econ. J. Vol. 19, p.69.

2.Danish-American Bulletin March 1913, J.F.Sinclair, Agricultural Cooperation in Denmark.

was renewed in 1904 for an additional five years and in 1909 it was extended for ten years. An annual grant of \$1,000,000 is now made for such loans. The plan is to assist the agricultural laborer to get land, to build a home, and to become independent. State aid is limited to the very small holder or men without land. In addition, the borrower must fulfill certain conditions in order to obtain a loan. "He must have worked at least four years for other farmers, He must prove by testimonials from the community in which he lives that he is sober, economical, and industrious, and he must satisfy the authorities that the investment is justified. When these conditions are fulfilled the Government grants a loan, the maximum amount of which is 90% of the value of the property. The funds are administered by a committee appointed for each district and consisting of three members. The loan must be expended under the direction of this committee. The security for these loans to the government is the man's character and the holding. The interest charge is three per cent. The amount the government has loaned in this way was, in 1912, \$6,750,000. Of this amount only \$2,500 or 0.14% was lost, The effect has been to create a class of wide awake small holders out of a class of men who without this assistance, largely would have rem-

mained agricultural laborers without opportunity
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to improve their condition."

State Aid in France.

The Credit Foncier created in 1852 was designed to furnish credit to all farmers alike. It was soon realized, however, that the organization of land credit was bringing no relief to the small farmer and that something else was needed to save the small farmer from the usurious interest rates which he was compelled to pay.

The first piece of legislation which materially benefited the French agriculturalist was the Act of 1884. This act permitted 20 or more persons of the same trade to form a syndicate of union for the purpose of promoting the economic interest of its members. This act is of importance because it formed the basis of many cooperative organizations among the farmers, and later became the nucleus for the rural credit system.

In 1894 an act was passed providing for the creation of local agricultural mutual banks (Caisses Locales) with the syndicates as a nucleus. In 1899 this system was organized and consolidated by the creation of regional banks (Caisses Regionales). The state placed at the disposal of the regional banks, in order that they might in turn finance the local
1. Rept. of the Royal Comm. of Agri. Province of
British Columbia, 1914. p.357.

banks, considerable sums of money derived from the Bank of France. In 1897 the Government demanded as a certain condition of renewal of the charter of the Bank of France, that it should lend, without interest, a sum of 40,000,000 francs for agricultural purposes, and that it must also make an annual payment (calculated on the amount of business done) but which must not be less than 2,000,000 francs. The payment has actually amounted to between 3,000,00 and 5,000,000 francs. These sums furnish the fund out of which the agricultural credit system is aided.

The organization and operation of the system is briefly as follows: The local banks are formed by agriculturalists all of whom must be members of syndicates. Each member must subscribe to a certain number of shares. The members elect a council of five members whose duty is to conduct the business of the association. They receive and pass upon all applications for loans. The regional banks are designed to supervise the work of the district banks. They are formed by the state but two-thirds of their stock must be subscribed by the local banks. The regional bank thus receives its capital from its member local banks. The regional banks receive loans from the state equal from four to

six times the amount of their original capital.

A member of a local bank can borrow from ten to twenty times the amount of his subscription. The loans are made as a rule only for short periods of time but since 1910 long term loans have been made. The maximum loan that can be made to one party is \$1,600 and the maximum period is fifteen years. The loans usually draw two per cent interest and are extinguishable by amortization. This system has been an important factor in building up the sound agricultural system which we find in France today.¹

Conclusion.

The systems of land credit which have proved so successful in supplying the credit needs of the large landowner in Europe have proved inadequate to meet the credit needs of the tenant farmer. It has been found expedient in many states to supplement the land credit system with a system of state aid for the landless. State aid, where properly administered has proved a powerful stimulus to land ownership for tenants and agricultural laborers. European experiences have shown, however, that there are certain essential provisions that must be recognized in any system of state aid; first, the

1. Senate Document 574. 62nd Congress. 2nd Session. Systems of Cooperative Credit. Publication of International Institute of Agriculture. p.33.

advances made by the government should not be too large, large advances lead to speculation, waste, and extravagance in the use of the funds, and the spirit of enterprise and independence in the individual is deadened, second, the borrower should be required to fulfill certain conditions as to residence. In this way, only, can the benefits of state aid be reserved to those who are worthy and in need of assistance.

State Aid in the United States.

As has been pointed out in the preceeding chapter, the rural credit laws enacted in the United States, with the exception of the Oklahoma law, have been designed primarily for the benefit of the landowner. The laws propose to strengthen the borrowing power of the farmers, landowners, and tenants alike by lowering the interest rate. Such legislation cannot materially benefit the tenant. The lower interest rates afforded the farmer will mean speculation and land speculation means a rise in the price of land. The result is that the large landowner and the speculator will be benefitted by an increase in the value of their land, while the landless men, if he purchases land will have to pay a higher price for it. The net result is that the tenant is in no better position than he was before the credit laws were enacted.

As has been pointed out, effective credit legislation in order to benefit the tenant must afford an advantage to the tenant which will not accrue the landowner,

This has been accomplished in the Oklahoma law by providing; first that "not to exceed \$2,000 can be loaned to any one individual or family"; second, that "all loans shall be secured by first mortgage on farm lands upon which the borrower resides and holds as his homestead". The first provision limits the amount advanced sufficiently that the funds will not be extravagantly and uselessly spent and at the same time, affords not a little benefit to the landless man in his effort to become a landowner. The second provision makes it impossible for those who do not wish to reside on the land, speculators and landowners, to take advantage of the government aid.

What is to be the future of direct aid in the United States? Certainly the land credit facilities afforded the landowner have made the question of credit for the tenant more imperative. Are the credit advantages enjoyed by the landless man in Oklahoma to be extended to our tenants in other states? The logical step is for the Federal Government to supplement the Federal Farm Loan Act

with an act providing for a limited amount of direct aid to the landless man. That such action will be taken in the near future is, however, doubtful. The prevalent attitude seems to be that the Federal Government in enacting the Federal Farm Loan Act has extinguished all of its obligations to the farmer and has settled the rural credit question. The present indications are that the tenant will have to look to the state governments for assistance.

CHAPTER V.

The Chief Provisions of the Federal Farm Loan Act.

Introduction.

The Federal Farm Loan Act is an adaption of the Hollis-Bulkley bill. Like the Hollis-Bulkley bill, it provides for the creation of a system of land banks analagous to that established by the Federal Reserve Act for Commercial Banks.

The administration of the system is to be under the control of a bureau in the Treasury Department which is in the charge of the Federal Farm Loan Board. The board is to divide the country into twelve districts and establish in each district a system of national farm loan associations and a single Federal land bank. At the time of the passage of the act there was some difference of opinion as to the feasibility of the national farm loan associations as the only local units. Provision was consequently made for the appointing of Federal Agents in case associations failed to be organized. As a further guarantee that some sort of system would ultimately be established, provision was made for the voluntary formation of joint-stock land banks.

The Federal Farm Loan Board,

The Federal Farm Loan Board is in charge of a bureau in the Treasury Department. It is com-

posed of the Secretary of the Treasury who is ex-officio chairman and four other members appointed by the President by and with the consent of the Senate. The members are to serve for eight years, except that the four members first appointed are to serve for two, four, six, and eight years respectively. An attempt is made to keep the system out of politics by providing that not more than two members of the board shall be of the same political party. Four of the members are supposed to devote their entire time to the work of the board and are not to engage in banking or in any other business of making or selling land mortgage loans. They are to receive an annual salary of \$10,000, together with traveling expenses. One member is to be designated by the President as Farm Loan Commissioner and active executive officer of the Board.

The Board is granted extensive powers. In it is vested the general supervision of the entire system. Among the more important powers which it has are the following: (1) to divide continental United States, excluding Alaska, into twelve Federal land bank districts and to establish in each district a Federal land bank; (2) to organize and charter Federal land banks; and to charter national farm loan associations and joint-stock land banks; (3) to review and alter

at its discretion the rate of interest to be charged by Federal land banks in order to secure as much uniformity in interest rates as possible; (4) to grant or refuse Federal land banks the authority to make any specific issue of farm loan bonds; (5) to make rules respecting charges made to borrowers on loans for expenses, appraisals, determination of titles, and registration; (6) to appoint in each district a farm loan register, land bank appraisers and examiners; (7) to require the Federal land banks to cooperate in the payment of their equitable share of interest coupons on farm loan bonds; (8) to declare farm mortgages within states, whose laws afford insufficient protection to the first mortgage holder, ineligible as a basis for the issue of farm loan bonds.

Federal Land Banks.

Each of the twelve Federal land banks is to be controlled by a board of nine directors, six, known as local directors, to be selected by the national farm loan associations within the district, and three, known as district directors, to be appointed by the Federal Farm Loan Board. One of the directors is to be designated by the Federal Farm Loan Board as chairman. One of the directors must be a practical farmer, and no director can be engaged in banking or in any business of negotiating mortgage loans.

Each Federal land bank, before beginning business, must have a subscribed capital of not less than \$750,000. The stock is to be subscribed by the public, the states, or the Federal government. It is contemplated that the stock will be taken for the most part by the national farm loan associations, it being provided that the national farm loan associations desiring to borrow from the Federal land bank must subscribe to stock in the Federal land bank equal to 5 per cent of the aggregate amount of the loans desired. Provision is made, however, that if the entire issue of \$750,000 capital stock is not subscribed for within thirty days after opening of the books, the remaining unsubscribed stock is to be purchased by the Secretary of the Treasury out of any funds, which are unappropriated, in the treasury.

1. Land Banks have been located in the following places: for Massachusetts, New Hampshire, Vermont, Maine, Rhode Island, Connecticut, New York, and New Jersey, Springfield, Mass.; For Pennsylvania, Delaware Maryland, Virginia, West Virginia, and District of Columbia, Baltimore, Md.; for Ohio, Indiana, Kentucky and Tennessee, Louisville, Ky.; for Alabama, Mississippi, and Louisiana, New Orleans, La.; for Illinois, Misspuri, and Arkansas, St. Louis, Mo.; for Michigan, Wisconsin, Minnesota and North Dakota, St. Paul, Minn.; for Iowa, Nebraska, South Dakota, and Wyoming, Omaha, Nebr.; for Oklahoma, Kansas, Colorado, and New Mexico, Wichita, Kans.; for Texas, Houston, Texas; for California, Nevada, Utah and Arizona, Berkley, Calif.; for Washington, Oregon, Montana, and Idaho, Spokane, Wash.

Thus it has been assured that the twelve Federal Land Banks will be at least organized and made ready for business. The amount subscribed by the Federal Government is to be ultimately retired by the banks at par. After subscriptions by the national farm loan associations to the capital stock has reached \$750,000 in any Federal land bank, the bank is to apply 25% of all sums thereafter subscribed to the retirement of the original stock subscribed by the government.

National Farm Loan Associations.

A national farm loan association may be formed by ten or more persons who are the owners or about to become owners of farm lands qualified as security for mortgage loans, provided the aggregate amount of loans desired is not less than \$20,000 and that subscriptions equal to five per cent of the amount of the loans desired have been made to the stock of the Federal land banks.

Each national farm loan association is to be under the management of a board of five directors to be elected and hold office under the same conditions as in the national banking associations. The members of the board of directors are to choose a president, a vice president, a loan committee of three, and a secretary and treasurer.. With the

the exception of the secretary-treasurer, no officer or director of a national farm loan association is to receive compensation unless approved by the Federal Farm Loan Board. All officers, with the exception of the secretary-treasurer, must be residents of the district and members of the association.

Each national farm loan association must have a subscribed capital of at least \$1,000, divided into shares of five dollars each. Each prospective borrower must become a member of the association and subscribe to stock in the association equal to five per cent of the amount of the loan which he desires. Each share of stock carries with it the power to vote. However the maximum number of votes which can be cast by any one person is twenty. The capital stock is held by the association as collateral security for the payment of loans by the borrowers. Any dividends which accrue from the capital stock is paid to the borrowers. The stock is retired at par upon the full payment of the loan by the borrower. The share holders are individually responsible, equally and ratably, and not for one another, for all liabilities of the association to the extent of the stock owned at par in addition to the amount paid in, represented by their shares.

Each national farm loan association must subscribe for capital stock in the Federal land bank equal to five per cent of the amount of loans desired by the association from the bank. Twenty five per cent of that part of the capital held by the national farm loan association must be held in quick assets and may consist of cash in the vaults of the bank, in deposits in member banks of the Federal Reserve System, or in readily marketable securities which have been approved by the Federal Farm Loan Board.

The Relation between the Federal Land Banks and the National Farm Loan Associations.

Neither the Federal Land Banks nor the national farm loan associations can be treated as separate and distinct units in the new creditsystem. Both are parts in the complex machinery whereby the government proposes to collect the surplus funds from small investors in all parts of the country and make them available to individual borrowers on the combined security of all the borrowers.

As has been pointed out, the national farm loan associations are voluntary organizations of prospective borrowers. They are in reality agents of the Federal Land Banks. Their function is to receive applications for farm loans from their members

examine into the value of the security offered for such loans, and to indorse and become liable for all such securities accepted through them by the Federal land banks. The national farm loan associations receive the loans on the securities accepted through them by the land banks, and distribute such loans to the borrowers. The associations receive and remit to the Federal land banks all payments due from borrowers on account of principle, interest or other charges.

The function of the Federal land bank is to afford a market for the loans accumulated by the national farm loan associations. They receive the applications from the associations, pass upon them, and if accepted make loans to the members of the association upon the security of first farm mortgages. Against the combined security of all the mortgages so held, the Federal land banks are authorized to issue debenture bonds. From the sale of these bonds, the banks receive funds with which to make additional loans on mortgage securities.

Loans.

A Federal land bank can make loans only upon security of first mortgages upon farm land located in the land bank district. The loans may be made for amounts not to exceed 50% of the value of the land mortgaged and 20 per cent of the value

permanent improvements. However, loans cannot be made to single individuals for more than \$10,000 nor less than \$100. Limitations are likewise placed upon the purposes to which the loans may be applied. The law provides that loans may be made for the following purposes: (1) to provide for the purchase of lands for agricultural purposes, (2) to provide for buildings and for the improvement of the land, and (3) to liquidate existing indebtedness. If the proceeds of any loan are not used as specified, the loan may be called in.

The maximum rate of interest which can be charged the borrower by the Federal land banks under this system is six per cent. Furthermore, each mortgage must contain a provision whereby the farmer may repay his loan by installments on the amortization plan. He must pay; (1) a charge on the loan not exceeding the interest rate on the last series of farm loan bonds issued by the bank making the loan, (2) a charge for administration and profits at a rate not exceeding 1 per cent on the unpaid principal and, (3) such amounts to be applied to principal as will extinguish the debt in the agreed period. Any time after five years from the date of the loan, the borrower has the option to pay the whole of the loan or any part of it in multiples of 25 dollars.

Applications for loans are made through the national farm loan associations or the authorized agents of the Federal land bank. All applications received by the association are referred to a committee known as the loan committee. This committee is composed of three members elected by the board of directors. The loan committee examines the land offered as security and makes a detailed written report giving their appraisal of the land. Upon a favorable report of the committee, the application together with the committee's report is submitted to the Federal Land Bank. These are referred by the bank to the land bank appraiser who makes a second investigation and report upon the land offered as security. Upon the receipt of the appraisers report, the land bank may either accept or reject the application. If the application is accepted, the Federal land bank turns the desired amount of funds over to the farm loan association which delivers them to the borrower. It is the duty of the Associations to collect and remit to the Federal land banks all payments due on account of principal and interest. The Association is allowed to retain from each interest payment on indorsed loans a commission of not more than one-eighth of one per cent semi-annually upon the unpaid principal of the loan.

Farm Loan Bonds.

Farm loan bonds constitute the chief source of the funds from which the Federal land banks and joint stock land banks make loans to borrowers. Farm loan bonds can be issued only with the consent of the Federal Farm Loan Board and upon security of first mortgages on farm lands or upon United States bonds, deposited with the farm loan registrar, who is a trustee appointed by the Federal Farm Loan Board. It is the duty of the registrar to hold the collateral security in trust and see that the farm loan bonds delivered at no time exceed the value of the collateral securities on deposit. The registrar receives the applications for issues of bonds from the land bank and upon the consent of the Board makes deliveries of the bonds. When the mortgages are paid in full, he causes such mortgages to be cancelled. The bonds can be issued in series of not less than \$50,000 and in denominations of \$25, \$50, \$100, and \$1,000. The maximum interest rate which Federal land banks can charge is five percent. The bonds may be retired any time after five years from the date of issue at the option of the land bank. They are secured first, by the farm mortgages and other securities on deposit with the farm loan registrar; second, by the capital stock of the issuing bank; third, by the capital, reserves, and earnings of all

the Federal farm loan banks. The bonds are legal investments for trust funds and security for public deposits. Finally, the bonds are exempt from all taxation, local, state or federal.

Agents of the Federal Land Banks.

The Federal Farm Loan Act provides that, after the act has been in effect one year, banks, trust companies, mortgage companies and savings institutions may be authorized by the Federal Farm Loan Board to act as agents for the Federal land banks in localities where no farm loan associations have been formed. These institutions are authorized to make loans subject to the same conditions and restrictions as those made through the national farm loan associations. Each borrower must subscribe to the capital stock of the Federal land bank of the district in which he resides to an amount equal to five per cent of the amount of his loan. The Federal land banks are to allow the agents the actual expenses incurred in appraising the land, examining the title, and in making and executing the mortgage papers and in addition a yearly commission of not to exceed one-half of one per cent on the unpaid principal of the loan. The agent is limited in the amount of loans he can make to an amount equal to ten times the capital and surplus. The principal duties

of the agent are to endorse and become liable for all loans made through them by the Federal land bank and to collect and forward to the Federal land bank all payments due it on the loans.

Joint Stock Land Banks.

Cooperations known as joint stock land banks may be formed by ten or more persons for the purpose of making loans upon farm mortgage security and issuing bonds. Each joint stock land bank must be chartered by the Federal Farm Loan Board and have a subscribed capital stock of not less than \$250,000, one-half of which must be paid in cash and one-half subject to call. They cannot issue bonds, however, until the entire capital stock is paid up.

The shareholders in the joint stock land banks are individually liable equally and ratably and not one for the other to the extent of stock owned at par in addition to the amount paid in and represented by their shares. The United States government is not permitted to be a shareholder in these banks. There must be a board of directors consisting of five members.

In the making of loans and in the issuing of bonds the joint stock land banks are subject, with some exceptions, to practically the same conditions and restrictions as the Federal land banks. The principal exceptions are the following: The joint

stock banks are limited in their area of operation to two states, the state in which the home office is located and one adjoining state. They are limited in amount of business, that is in the amount of bonds which they can issue, to an amount equal to fifteen times their capital and surplus. They are not permitted to charge a rate of interest on farm lands exceeding, by more than one percent the rate established for the last series of bonds issued. The banks may under certain conditions, act as financial agent of the United States government and receive government deposits, but these funds cannot be invested in farm mortgages.

Criticism.

In drafting the Federal Farm Loan Act, the framers were confronted with a difficult problem, namely, to devise a system of land credit, national in scope, adaptable to the widely varying economic, political, and social conditions of the country, and which would, at the same time, reconcile the various conflicting plans then before Congress and be acceptable, first, to the advocates of cooperation who were in favor of a system of cooperative land banks; second, to the advocates of state aid; and third, to the advocates of private enterprise who were in favor of private banks similar to the joint-stock banks of Europe.

The system finally provided for seems to have accomplished this purpose very well. It provides for a system of state aided cooperation supplemented with a system based on private enterprise. The basis of the new system is, as we have seen, the national farm loan associations organized on a co-operative basis and centralized through the Federal Land Banks. In order to assure the establishing of the Federal land banks and to reconcile the advocates of state aid, provision was made for the liberal subsidizing of the Federal land banks by the government. Finally, the advocates of private enterprise were satisfied when there was appended a supplementary system by which farm loan bonds could be issued through private joint stock banks.

The new system is designed to accomplish three purposes, namely; (1) to improve the method of making loans, (2) to reduce commission and administrative charges and (3) to equalize interest rates from one part of the country to another. The law wisely provides for the making of long time loans repayable by amortization. As has been shown, many of the worst defects in the present system arise from the fact that farmers can secure loans only for short periods of time and on difficult terms of repayment. The new system is designed to remedy these defects, first, by enabling the farmer to secure loans for

periods ranging from five to forty years; second, by enabling him to repay his loan on the amortization plan, each year paying in addition to interest and operating expenses, a small per cent of the principal so that when the loan matures the debt is entirely wiped out. Such provisions ought to prove of great assistance to the farmer. It should enable him to plan ahead and relieve him of much anxiety and uncertainty as to future interest rates and renewals. A system based upon such principles ought to encourage saving and be a great incentive to thrift.

In chapter I of this paper, it was shown that the farmers in the south and west, especially, are at a great disadvantage in marketing their securities because of the understandardized character of farm mortgages. As a result, interest rates are high and commission charges are frequently excessive. The new system is designed to remedy this defect by standardizing farm securities, thereby opening up a wider market for farm mortgages and giving greater mobility to funds seeking investment in such securities.

Briefly, the plan is to enable the farmer to exchange his little known, unstandardized farm mortgage security for widely known, marketable Federal farm loan bonds. The machinery by which this is to be accomplished is somewhat complicated.

It is generally expected that the national farm loan associations will constitute the most important local units in the farm loan machinery and be the chief source of farm loans. Since they are to be conducted on a cooperative basis, it is expected that they will not only operate at a minimum outlay of expense but that, since the borrowers participate in all profits, they will furnish loans at actual cost. That the national farm loan associations will perform all that is expected of them is somewhat doubtful. As has been shown before, there are practical difficulties in the way of successful cooperation in this country, the chief of which are; (1) the absence of the spirit of cooperation among the farmers that is needed to hold them together in the face of strong competition. The framers of the act were not altogether unaware of this state of affairs. Therefore to guard against the predicament of having the whole system tied up by the failure of the national loan associations, the organized provision was made that the Federal Farm Loan Board should authorize existing institutions -- banks, mortgage and trust companies -- to act as agents of the Federal land banks in the event that no associations were organized in a particular community.

Finally, provision was made for making loans through private joint stock land banks. These are related to the federal land banks in that they are

under the control of the same central authority and have many of the same priveleges and restrictions with regard to making loans and issuing of bonds. They in reality constitute a second system. It is somewhat difficult to see just what the framers of the act expected from such a combination. Certainly they have provided the machinery for two competing systems. It is not unlikely that one part of the system will succeed at the expense of the other. It is clear that one of the greatest difficulties which the national farm loan associations are going to have to face is the competition from other credit institutions. The creation of the joint stock land banks will only add another strong competitor to the already long list of competitors to be overcome by the associations. Cooperative experience in this country has proven time and again that it is difficult to hold the members in line when competing companies are offering equally attractive terms. The framers of the act evidently foresaw this possibility. They sought to hold the joint stock land banks in check by limiting first, the amount of bonds they could issue to fifteen times their capital stock and surplus, and second, by limiting their operation to two continuous states.

The limitation of the joint stock land

is unfortunate. In the opinion of the writer the joint stock land banks are better adapted to the needs of the farmer than are the national farm loan associations. If the joint stock land banks can furnish credit to the farmer on terms equally attractive as those offered by the national loan associations, why discriminate against them by imposing restrictive legislation? There is no point in maintaining a complicated, subsidized system when a simple, privately owned system can perform the same service equally well.

The third purpose of the new system is to equalize interest rates from one section of the country to another. The Federal Farm Loan Board has recently announced its intention of making loans to farmers at five percent and of issuing bonds against the mortgage so taken, to bear a rate of four and one-half per cent. There is little question but that there will be many applications for loans at a rate so low as five per cent. On the other hand there is little doubt but that the bonds will command a wide market. They are well secure and bear a moderately high interest rate considering their security. Such being the case, it seems quite probable that the third purpose of the act will be realized. This means a reduction of interest rates in the West and South of as much as four and five per cent. The

question which many are asking is, What is to be the effect of wholesale artificially lowering the interest rates? The first effect will be speculation inland. The price of land will advance materially. Present landowners will profit enormously. The tenant will be left where he was before, without land, and without the means of procuring land at the advanced price. Manifestly the prime purpose of land credit legislation has been defeated. The tenancy problem will not be solved but aggravated. Here we see again the fundamental distinction between the interests and needs of the landowner and those of the tenant. The land credit question in the United States is only half provided for. The country's next great work and duty, in the interest of democracy, is to provide a system of land credit for the tenant -- a policy most European countries adopted long ago.

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